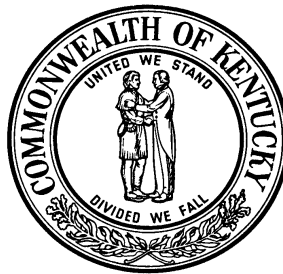


**REPORT OF THE STATEWIDE SINGLE AUDIT OF THE  
COMMONWEALTH OF KENTUCKY**

**VOLUME II**

**For the Year Ended  
June 30, 2016**



**MIKE HARMON  
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MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS

March 28, 2017

Honorable Matthew G. Bevin, Governor  
Cabinet Secretaries and Agency Heads  
Members of the Commonwealth of Kentucky Legislature

As the Auditor of Public Accounts, I am pleased to transmit herewith our report of the Statewide Single Audit of the Commonwealth of Kentucky-Volume II for the year ended June 30, 2016. Our Statewide Single Audit of the Commonwealth of Kentucky report will be transmitted in two volumes in order to meet reporting guidelines established by the American Institute of Certified Public Accountants. Volume I contains financial statement findings identified during our audit of the Comprehensive Annual Financial Report (CAFR), the Schedule of Expenditures of Federal Awards (SEFA), related notes, and our opinion thereon, as well as the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. Volume I was issued under a separate cover. Volume II contains the *Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance* and federal award findings and questioned costs identified during our audit.

The Auditor of Public Accounts also calculates a dollar threshold, based on Title 2 U.S. *Code of Federal Regulations* (CFR) part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, to determine the federal programs to be audited for internal controls and compliance. For FY 2016, the threshold for auditing federal programs was \$30,000,000.

On behalf of the Auditor of Public Accounts' Office, I wish to thank the employees of the Commonwealth for their cooperation during the course of our audit. Should you have any questions concerning this report, please contact Executive Director Libby Carlin, or me.

Respectfully Submitted,

Mike Harmon  
Auditor of Public Accounts





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## INTRODUCTION



**COMMONWEALTH OF KENTUCKY  
INTRODUCTION  
FOR THE YEAR ENDED JUNE 30, 2016**

**Single Audit**

The Single Audit Act of 1984, subsequent amendments, and corresponding regulations, require an annual audit of the financial statements and compliance with requirements applicable to major federal programs. The Auditor of Public Accounts (APA) meets these requirements and submits audit findings required to be reported by auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), through our opinion on the Commonwealth's Comprehensive Annual Financial Report (CAFR) and through the Statewide Single Audit of Kentucky (SSWAK). Our SSWAK report is contained in two volumes as noted below.

**SSWAK - Volume I** contains financial reporting information based on our audit of the CAFR. It includes the APA's opinion on the Schedule of Expenditures of Federal Awards (SEFA) in relation to the financial statements, the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, and financial statement findings related to internal control and compliance.

**SSWAK - Volume II** contains elements required under the Uniform Guidance, including the *Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance*, and the Schedule of Findings and Questioned Costs.

**Schedule of Findings and Questioned Costs**

The Schedule of Findings and Questioned Costs consists of three sections: Summary of Auditor's Results, Financial Statement Findings, and Federal Award Findings and Questioned Costs. The Summary of Auditor's Results summarizes the type of audit reports issued and lists major programs audited. The Financial Statement Findings section is reported in SSWAK Volume I. The Federal Award Findings and Questioned Costs section, presented within this report, lists findings related to federal awards. For the Federal Award Findings, material weaknesses and material instances of noncompliance are presented first, then significant deficiencies and reportable instances of noncompliance.

**Corrective Action Plans and the Summary Schedule of Prior Audit Findings**

Corrective Action Plans, prepared by management of the various agencies audited, related to audit findings reported in the Schedule of Findings and Questioned Costs for FY 2016, as well as the Summary Schedule of Prior Audit Findings, are included in the data package submitted to the Federal Audit Clearinghouse and can be found at <https://harvester.census.gov/facweb/>.

**COMMONWEALTH OF KENTUCKY  
INTRODUCTION  
FOR THE YEAR ENDED JUNE 30, 2016**

**Audit Approach**

The scope of the FY 2016 SSWAK included:

**Financial**

- An audit of the basic financial statements and combining financial statements;
- Limited procedures applied to required supplementary information;
- An audit of the SEFA sufficient to give an opinion in relation to the basic financial statements;
- Tests of compliance with certain provisions of laws, regulations, contracts, and grants, and tests of internal controls, where applicable; and
- Findings related to internal control and compliance over financial reporting, when noted during the audit of the CAFR.

**Federal Awards**

- An audit of compliance with the compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each major federal program; and
- Tests of internal control over compliance in accordance with the Uniform Guidance.

**Component Units**

The Single Audit Act Amendments permit the single audit to cover the entire operations of the entity or include a series of audits covering departments, agencies, or other organizational units expending federal awards. The Commonwealth has elected to exclude component units from the SSWAK, except as part of the audit of the basic financial statements. Thus, component units are not included in the report on compliance and internal control and corresponding Schedule of Findings and Questioned Costs. It should be noted, however, that these entities are still required to have audits performed in accordance with the provisions of the Uniform Guidance, if applicable.

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH THE UNIFORM GUIDANCE**





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

**Report on Compliance For Each Major Federal Program and  
Report on Internal Control Over Compliance In Accordance With the Uniform Guidance**

*Independent Auditor's Report*

Honorable Matthew G. Bevin, Governor  
Cabinet Secretaries and Agency Heads  
Members of the Commonwealth of Kentucky Legislature

**Report on Compliance for Each Major Federal Program**

We have audited the Commonwealth of Kentucky's (Commonwealth) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Commonwealth's major federal programs for the year ended June 30, 2016. The Commonwealth's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Commonwealth's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Commonwealth's compliance.



Report on Compliance For Each Major Federal Program and  
Report on Internal Control Over Compliance In Accordance With the Uniform Guidance  
(Continued)

**Basis for Qualified Opinion on CFDA 10.551, 10.561, 84.126, 93.558, 93.767, 93.775, 93.777, 93.778**

As described in the accompanying Schedule of Findings and Questioned Costs, the Commonwealth did not comply with requirements regarding Eligibility for CFDA 10.551 Supplemental Nutrition Assistance Program, CFDA 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, CFDA 93.558 Temporary Assistance for Needy Families, CFDA 93.775 State Medicaid Fraud Control Units, CFDA 93.777 State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare, CFDA 93.778 Medicaid Assistance Program, and CFDA 93.767 Children's Health Insurance Program as described in finding 2016-044. The Commonwealth also did not comply with requirements regarding Reporting for CFDA 10.551 Supplemental Nutrition Assistance Program and CFDA 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program as described in finding number 2016-045. The Commonwealth also did not comply with requirements regarding Special Tests and Provisions for CFDA 10.551 Supplemental Nutrition Assistance Program and CFDA 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program as described in finding 2016-046. The Commonwealth also did not comply with requirements regarding Reporting for CFDA 84.126 Rehabilitation Services Vocational Rehabilitation Grants to States as described in finding 2016-047. Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to those programs.

**Qualified Opinion on CFDA 10.551, 10.561, 84.126, 93.558, 93.767, 93.775, 93.777, 93.778**

In our opinion, except for the noncompliances described in the Basis for Qualified Opinion paragraph, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

**Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2016.

**Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance with the compliance requirements referred to above that are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-048, 2016-049, 2016-050, 2016-051, 2016-052, 2016-053, 2016-054, 2016-055, 2016-056, 2016-057, 2016-058, 2016-059, 2016-060, and 2016-061. Our opinion on each major federal program is not modified with respect to these matters.

The Commonwealth's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Commonwealth's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the responses.

Report on Compliance For Each Major Federal Program and  
Report on Internal Control Over Compliance In Accordance With the Uniform Guidance  
(Continued)

**Report on Internal Control Over Compliance**

Management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commonwealth's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2016-044, 2016-045, 2016-046 and 2016-047 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items, 2016-048, 2016-049, 2016-050, 2016-051, 2016-052, 2016-053, 2016-054, 2016-055, 2016-056, 2016-057, 2016-058, 2016-059, 2016-060, and 2016-061 to be significant deficiencies.

Report on Compliance For Each Major Federal Program and  
Report on Internal Control Over Compliance In Accordance With the Uniform Guidance  
(Continued)

The Commonwealth's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Commonwealth's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

March 6, 2017

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**SECTION 1 - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Financial Statements: We issued unmodified opinions on the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the Commonwealth as of and for the year ended June 30, 2016.

Internal Control Over Financial Reporting: Our consideration of the Commonwealth's internal control over financial reporting disclosed two material weaknesses and 41 significant deficiencies.

Compliance: In relation to the audit of the basic financial statements of the Commonwealth, the results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Federal Awards**

Compliance: We issued a qualified opinion on the Commonwealth's compliance with the following major federal programs: CFDA 10.551, 10.561, 84.126, 93.558, 93.767, 93.775, 93.777, and 93.778. The results of our auditing procedures resulted in four findings that disclosed material noncompliances. The results of our auditing procedures resulted in 14 additional findings which disclosed noncompliances which are required to be reported in accordance with the Uniform Guidance.

Internal Control Over Compliance: Our consideration of the Commonwealth's internal control over compliance disclosed 14 significant deficiencies and four material weaknesses.

**SECTION 1 - SUMMARY OF AUDITOR'S RESULTS (CONTINUED)****Identification of Major Programs**

<b>CFDA</b>	<b>Cluster or Program Title</b>
10.551, 10.561	Supplemental Nutrition Assistance Program Cluster
10.558	Child and Adult Care Food Program
17.225	Unemployment Insurance
17.258, 17.259, 17.278	Workforce Investment Act Cluster
20.205, 20.219, 23.003	Highway Planning and Construction Cluster
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States
84.287	Twenty-First Century Community Learning Centers
84.369	Grants for State Assessments and Related Activities
93.558, 93.714	Temporary Assistance for Needy Families Cluster
93.575, 93.596	Child Care Cluster
93.667	Social Services Block Grant
93.767	Children's Health Insurance Program
93.775, 93.777, 93.778	Medicaid Cluster

Type B Major Programs are highlighted in gray.

**Dollar Threshold Used To Distinguish Between Type A and Type B Programs**

The maximum dollar threshold used to distinguish between Type A and Type B programs was \$30,000,000.

**Auditee Risk**

The Commonwealth did not qualify as a low-risk auditee.

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

See the Report of the Statewide Single Audit of the Commonwealth of Kentucky Volume I for Financial Statement Findings 2016-001 through 2016-043.

### **SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-044: The Cabinet For Health And Family Services Did Not Ensure The Benefind Application Was Completely Functional And The Staff Were Sufficiently Trained Prior To Implementation**

State Agency:	<u>Cabinet for Health and Family Services</u>
Federal Program:	<u>CFDA 10.551 - Supplemental Nutrition Assistance Program</u> <u>CFDA 10.561 - State Administrative Matching Grants For The Supplemental Nutrition Assistance Program</u> <u>CFDA 93.558 - Temporary Assistance for Needy Families (TANF)</u> <u>CFDA 93.775 - State Medicaid Fraud Control Units</u> <u>CFDA 93.777 - State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare</u> <u>CFDA 93.778 - Medicaid Assistance Program</u> <u>CFDA 93.767 - Children's Health Insurance Program</u>
Federal Agency:	<u>U.S. Department of Health and Human Services</u> <u>U.S. Department of Agriculture</u>
Pass-Through:	<u>Not Applicable</u>
Compliance Area:	<u>Eligibility</u>
Questioned Costs:	<u>\$158,992</u>

This finding was reported in the 2016 Report of the Statewide Single Audit of the Commonwealth of Kentucky (SSWAK) Volume I as financial statement Finding 2016-001. Management's response and planned corrective action for Finding 2016-001 can be found in the SSWAK Volume I. The finding also identified matters impacting federal program compliance as described below.

The audit of the Cabinet for Health and Family Services revealed the Benefind application was not adequately tested prior to implementation to ensure the application was functioning as intended. Furthermore, audit procedures performed to test Benefind's ability to carry out essential functions related to eligibility determinations identified adequate supporting documentation was not present within the case files to ensure that eligibility determinations complied with the requirements of the major federal programs tested. Testing identified \$158,992 in known questioned costs.

42 CFR 435.900 et al. sets criteria necessary for determining eligibility, specifically noting:

§ 435.901 Consistency with objectives and statutes. The Medicaid agency's standards and methods for determining eligibility must be consistent with the objectives of the program and with the rights of individuals under the United States Constitution, the Social Security Act, title VI of the Civil Rights Act of 1964, section 504 of the Rehabilitation Act of 1973, and all other relevant provisions of Federal and State laws.

§ 435.913 Case documentation. (a) The agency must include in each applicant's case record facts to support the agency's decision on his application. (b) The agency must dispose of each application by a finding of eligibility or ineligibility, unless—(1) There is an entry in the case record that the applicant voluntarily withdrew the application, and that the agency sent a notice confirming his decision[.]

### **SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-045: The Cabinet For Health And Family Services Submitted A Federal Report That Could Not Be Reconciled To Supporting Evidence**

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State Agency:	<u>Cabinet for Health and Family Services</u>
Federal Program:	<u>CFDA 10.551 - Supplemental Nutrition Assistance Program</u> <u>CFDA 10.561 - State Administrative Matching Grants For The Supplemental Nutrition Assistance Program</u>
Federal Agency:	<u>U.S. Department of Agriculture</u>
Pass-Through:	<u>Not Applicable</u>
Compliance Area:	<u>Reporting</u>
Questioned Costs:	<u>\$0</u>

This finding was reported in the 2016 Report of the Statewide Single Audit of the Commonwealth of Kentucky (SSWAK) Volume I as financial statement Finding 2016-005. Management's response and planned corrective action for Finding 2016-005 can be found in the SSWAK Volume I. The finding also identified matters impacting federal program compliance as described below.

The Cabinet for Health and Family Services (CHFS) implemented the Benefind Enrollment and Eligibility system on February 29, 2016, and the new reporting function did not operate correctly. Therefore, CHFS personnel were not able to produce the required reports for the quarters ending March 31, 2016 and June 30, 2016. Ultimately, a third party vendor generated the report data and created the FNS-209 reports for March 31, 2016 and June 30, 2016. These reports were generated directly from the data tables within Benefind, but none of the documentation necessary to reconcile or verify the report was available. CHFS employees did not have the access or expertise necessary to perform this task.

### **SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-046: The Cabinet For Health And Family Services Did Not Provide Adequate Security For Electronic Benefit Transfer Cards**

State Agency:	<u>Cabinet for Health and Family Services</u>
Federal Program:	<u>CFDA 10.551 - Supplemental Nutrition Assistance Program</u> <u>CFDA 10.561 - State Administrative Matching Grants For The Supplemental Nutrition Assistance Program</u>
Federal Agency:	<u>U.S. Department of Agriculture</u>
Pass-Through:	<u>Not Applicable</u>
Compliance Area:	<u>Special Tests and Provisions</u>
Questioned Costs:	<u>\$0</u>

This is a repeat finding. The original finding, 2015-048, was included in the 2015 SSWAK Volume II. Electronic Benefit Transfer (EBT) cards are utilized by Supplemental Nutrition Assistance Program (SNAP) recipients to purchase food at authorized retail stores. The EBT cards that are not mailed to the eligible member are maintained at local Department of Community Based Service (DCBS) offices. The Cabinet for Health and Family Services (CHFS) is required to provide adequate security over the EBT cards at the DCBS offices and maintain adequate documentation to prevent theft, embezzlement, loss, damage, destruction, unauthorized transfer, negotiation, or improper use of SNAP benefits. Audit tests of CHFS procedures over EBT card security indicate that CHFS had not complied with this federal requirement.

Due to a transition in software applications during the fiscal year, security procedures were tested in both the period covered by the former system, the Kentucky Automated Management and Eligibility System (KAMES), and the period covered by the new system, Benefind. While testing the KAMES period, the auditor tested the accuracy of acquisition and destruction records of EBT cards at 14 locations encompassing 13 counties. Each location tested had inadequate EBT security and was not following proper procedures required by DCBS policies.

We noted the following exceptions during the KAMES period:

- Seven out of 14 locations failed to properly secure EBT cards by not having adequate security procedures in place (or adequate segregation of duties among staff receiving, distributing, and destroying unclaimed EBT cards);
- Four out of 14 locations failed to document proper issuance procedures;
- All 14 locations failed to perform all required control procedures to confirm the count of cards remaining in the office at the end of the month; and
- Three out of 14 locations failed to properly destroy EBT cards by not destroying cards timely or did not ensure the destruction of the cards was completed.

This is a recurring problem that has been noted in numerous preceding audits. In the management response to the audit for fiscal year 2015, CHFS officials described Benefind as being the proposed solution to many of the EBT security issues. However, testing of EBT security processes following the implementation of Benefind on February 28, 2016 did not indicate any improvement in security over EBT cards.

**SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2016-046: The Cabinet For Health And Family Services Did Not Provide Adequate Security For Electronic Benefit Transfer Cards (Continued)**

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In testing EBT security during the period covered by Benefind, the following exceptions were noted:

- Benefind was designed to capture and record the identity of each DCBS employee performing the various card issuance procedures and prevent the same employee from performing multiple steps. Our testing indicated that Benefind did not reliably capture employee identification during the distribution process. Testing shows that EBT cards can be distributed to clients without the three individual steps being logged into Benefind. Exceptions noted during audit testing demonstrate the lack of internal controls that resulted in the following exceptions:
  - i) Six out of the 13 counties had instances where the same employee who requested the EBT card also received it in the local office. This resulted in 21 known exceptions.
  - ii) Three out of the 13 counties had instances where the same employee who received the EBT card also issued the card to the client. This resulted in 72 exceptions.
  - iii) Four out of the 13 counties had instances where the same employee who requested the EBT card issued the card to the client. This resulted in 44 exceptions.
- Benefind was supposed to include a reporting function that would allow DCBS managers and supervisors to generate reports of EBT cards mailed to their local offices and determine which cards should be in their inventory at any point in time. This report did not exist as of June 30, 2016, the fiscal year end, and did not become available until August 2016. Because the manual tracking of cards was discontinued when Benefind was implemented, most local offices had no means to track cards.

Improper procedures are being performed in handling EBT cards. Management and staff members are not aware of correct procedures or the policies are not being enforced by DCBS. New software is not operating as intended and still allows the potential for fraud.

The documented policies at DCBS may be written appropriately but without training or enforcement the policy is ineffective. Without proper procedures being performed there is a risk the EBT cards could be stolen, misplaced, or improperly used.

### **SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-046: The Cabinet For Health And Family Services Did Not Provide Adequate Security For Electronic Benefit Transfer Cards (Continued)**

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7 CFR § 274.5(c) states:

EBT cards shall be considered accountable documents. The State agency shall provide the following minimum security and control procedures for these documents:

- (i) Secure storage;
- (ii) Access limited to authorized personnel;
- (iii) Bulk inventory control records;
- (iv) Subsequent control records maintained through the point of issuance or use; and
- (v) Periodic review and validation of inventory controls and records by parties not otherwise involved in maintaining control records

During the KAMES period, the DCBS Operation Manual MS 0290 stated:

The recipient has 30 days to pick up their EBT card in the local office. If they fail to pick up their EBT card within 30 days, the card must be destroyed.

To maintain the security of EBT cards in the local office:

A. The Field Services Supervisor (FSS):

- 1. Maintains overall responsibility for secure storage of EBT cards and logs;
- 2. Designates two individuals (Employee A and Employee B mentioned below) to handle, secure, issue, destroy and complete logs for EBT cards;
- 3. Ensures EBT cards are NEVER left unsecured;
- 4. Routinely inspects the secure storage area;
- 5. Destroys or witnesses the destruction of EBT cards as they are returned to the local office, received damaged, or not picked up within 30 days;
- 6. Signs form EBT-5 at the time of destruction; and
- 7. Reviews and signs forms EBT-2, County EBT Card Log, and EBT-5 monthly to confirm the EBT cards remaining in the local office at the end of each month.

B. Employee A:

- 1. Has responsibility for receiving and securing EBT cards;
- 2. Ensures that the EBT cards are logged on form EBT-2 as received;
- 3. Obtains a card from the secure location and releases the card to Employee B at the time a recipient comes in to pick up the EBT card;
- 4. Records the release of each EBT card to Employee B on form EBT-2 daily; and
- 5. Attests to a daily reconciliation of EBT cards through comparison of EBT-2 and EBT-5 logs to cards remaining in the secure location.

### **SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-046: The Cabinet For Health And Family Services Did Not Provide Adequate Security For Electronic Benefit Transfer Cards (Continued)**

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- C. Employee B:
  - 1. Has responsibility for releasing EBT cards to recipients;
  - 2. Obtains the appropriate EBT card from Employee A as recipients come in to the local office to pick up their card;
  - 3. Views one form of identification from the recipient picking up the card and documents the verification on form EBT-2;
  - 4. Requires the recipient to sign, not initial, form EBT-2 to confirm receipt of the EBT card in a manner which preserves the confidentiality of others listed on form EBT-2;
  - 5. Signs form EBT-2 to indicate that the recipient's EBT card was released; and
  - 6. Attests to a daily reconciliation of EBT cards through comparison of EBT-2 and EBT-5 logs to cards remaining in the secure location.
  - 7. Must be a staff member other than an eligibility worker or Supervisor (For example, a clerical staff member. In offices where there is no clerical staff, as long as there is a clear separation of duties from the worker who approved the case or the Supervisor who signed off on the case, it will be acceptable).
- D. Either Employee A or B and the FSS destroys or witnesses the destruction of EBT cards as they are returned to the local office, received damaged or not picked up within 30 days, and signs form EBT-5 at the time of destruction.
- E. Ensure that the following action is taken at the end of each month:
  - 1. Both Employees A and B sign forms EBT-2 and EBT-5;
  - 2. The FSS reviews and signs form EBT-2, comparing the list of outstanding cards to the cards remaining in the secure location; and
  - 3. Retain forms EBT-2 and EBT-5 in a county file.

During the Benefind period, the DCBS Operation Manual MS 0290 states:

- A. The Field Services Supervisor (FSS):
  - 1. Maintains overall responsibility for secure storage of EBT cards and logging each card into Worker Portal;
  - 2. Ensures EBT cards are NEVER left unsecured;
  - 3. Routinely inspects the secure storage area;
  - 4. Destroys or witnesses the destruction of EBT cards as the cards are returned to the local office, received damaged, or not picked up by close of business on the 30th day;
  - 5. Updates information on Worker Portal at the time of destruction;
  - 6. Creates and reviews an adhoc report at the end of each month to reconcile the number of EBT cards remaining in the local office; and
  - 7. Annotates the report and emails it to CHFS.FoodBenefitsPolicy@ky.gov.

Regional Staff (SRAA and/or PAPS) will ensure the EBT cards are being stored securely with limited access. They may also run ad hoc reports to check the count of on-hand cards at any point in time.

### **SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-046: The Cabinet For Health And Family Services Did Not Provide Adequate Security For Electronic Benefit Transfer Cards (Continued)**

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##### **Recommendation**

We recommend CHFS:

- Review policies and procedures and provide more direction in the process of requesting, receiving, and issuing EBT cards through the local office. More direction should be given upon the proper completion of EBT-29 forms as well as reiterating the requirement of having the affidavit scanned into the electronic case files.
- Review policies related to the storage of EBT cards.
- Discuss edit blocks with the vendor and work toward a solution for correcting this feature which has not been working accurately.
- Discuss allowing the same employee to complete all steps of the request, receiving, and issuance of an EBT card in the local office.
- Continue to work closely with the vendor to ensure that all known defects are addressed in a timely fashion. In addition, any currently active work arounds should be reviewed and permanent solutions should be developed to address these situations. As these changes are made, CHFS should provide continuing training for all staff to ensure that they understand how known defects have been addressed and what continuing work arounds exist.

##### **Management's Response and Planned Corrective Action**

*DCBS has reviewed the exceptions noted, agrees with the findings and is implementing the recommendations as follows:*

- *Review policy and procedures and indicate more direction in the process of requesting, receiving, and issuing EBT cards through the local office. More direction should be given upon the proper completion of EBT-29 forms as well as reiterate the requirement of having the affidavit scanned into the electronic case files.*
  - *The DCBS Division of Family Support (DFS) Operations Manual Sections 280 - Local Office Responsibilities, and 290 - Security of EBT Cards, were updated effective 7/1/2016 to reflect the new EBT card security procedures.*
  - *All DCBS/DFS Field Service Supervisors (FSS) attended supervisor focused Benefind/Worker Portal training in September and October of 2016 that included EBT card security procedures.*

### **SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-046: The Cabinet For Health And Family Services Did Not Provide Adequate Security For Electronic Benefit Transfer Cards (Continued)**

##### **Management's Response and Planned Corrective Action (Continued)**

- *Communication was sent to all field staff November 10, 2016 to emphasize that EBT cards are to be mailed to the client address except in unusual circumstances. It should be a rare occurrence that an EBT card is issued through the local office.*
- *DFS issues an annual EBT card security memo that advises each local FSS to review EBT card security procedures with staff. This year the memo requires each FSS to review the information in the memorandum with their staff and have each staff sign a certification of review of EBT Card Security Procedures and return the completed documents to their regional office staff by May 1, 2017.*
- *DFS is working with the Division of Services Regions to include EBT card security in the annual performance evaluations for positions involved with EBT card security.*
- *Review policy of how all EBT cards should be stored with all county supervisors.*
  - *All DCBS/DFS Field Service Supervisors (FSS) attended supervisor focused Benefind/Worker Portal training in September and October of 2016 that included EBT card security procedures.*
  - *DFS issues an annual EBT card security memo that advises each local FSS to review EBT card security procedures with staff. This year the memo requires each FSS to review the information in the memorandum with their staff and have each staff sign a certification of review of EBT Card Security Procedures and return the completed documents to their regional office by May 1, 2017.*
- *Discuss edit blocks with the vendor and work toward a solution for correcting this feature, which has not been working accurately and allowing the same employee to complete all steps of the request, receiving, and issuance of an EBT card in the local office.*
  - *DFS continuously works with the vendor and OATS staff toward improvement. All defects related to separation of duties for requesting, logging and providing the card for pick-up are corrected.*
- *We recommend CHFS continue to work closely with the vendor to ensure that all known defects are addressed in a timely fashion. In addition, any currently active work arounds should be reviewed and permanent solutions should be developed to address these situations. As these changes are made, CHFS should provide continuing training for all staff to ensure that they understand how known defects have been addressed and what continuing work arounds exist.*
  - *DFS continues to work with the vendor and with OATS staff to ensure the process works as efficiently and effectively as intended.*

**SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2016-046: The Cabinet For Health And Family Services Did Not Provide Adequate Security For Electronic Benefit Transfer Cards (Continued)**

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**Management's Response and Planned Corrective Action (Continued)**

- *All known defects associated with EBT card security are corrected.*
- *The last known issue with EBT card security was an issue with selecting the appropriate local office through which a card should be issued. A resolution to this issue was reached February 2017.*

*In addition to the actions listed above, DFS is working with Food Nutrition Services (FNS) to monitor the effectiveness of the procedures in place. DFS will be submitting quarterly reports to FNS.*

*Reports are due:*

- *January – March due April 15*
- *April – June due July 15*
- *July-September due October 15*

### **SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-047: The Department Of Workforce Investment Failed To Ensure Financial Reports Were Accurate**

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State Agency: Department of Workforce Investment  
 Federal Program: CFDA 84.126 Rehabilitation Services Vocational Rehabilitation Grants to States  
 Federal Agency: U.S. Department of Education  
 Pass-Through: Not Applicable  
 Compliance Area: Reporting  
 Questioned Costs: \$0

The Department of Workforce Investment (DWI) failed to ensure the U.S. Department of Education Federal Financial Reports [Standard Form 425 (SF-425) and Annual Vocational Rehabilitation Program/Cost Reports (RSA 2) for the Rehabilitation Services] Vocational Rehabilitation Grants to States program were prepared accurately and in accordance with federal guidelines, reporting instructions, and the Rehabilitation Act (Act). The following discrepancies were identified when comparing submitted reports to supporting documentation within the accounting system:

- Total agency expenditures reported on the RSA-2 for the 2015 federal fiscal year (FFY) ending September 30, 2015 were overstated by \$4,963,831;
- Reported cash disbursements, recipient share, and indirect costs on the FFY 2015 semiannual SF-425 report for the period ending September 30, 2015 were overstated by a net amount of \$5,201,330;
- Reported cash disbursements, recipient share, and indirect costs on the FFY 2015 semiannual SF-425 report for the period ending March 31, 2016 were understated by a net amount of \$266,647; and
- Reported cash disbursements, recipient share, and indirect costs on the FFY 2016 semiannual SF-425 report for the period ending March 31, 2016 were overstated by a net amount of \$147,823.

DWI failed to implement adequate internal controls over the preparation and review of financial reports in order to ensure information was complete and accurate. DWI's inaccurate preparation of the SF-425 and RSA-2 reports was caused by the following:

- Supporting documentation included expenditures beyond the reporting end date;
- Reported expenditures did not agree to the supporting documentation; and
- Supporting documentation omitted necessary information.

Failure to ensure the accuracy of financial reports submitted to the U.S. Department of Education has resulted in noncompliance with federal reporting requirements and regulations. Additionally, inaccurate reporting information could have impacted determinations made by the federal government in managing and evaluating the activities and effectiveness of the Act.

### **SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-047: The Department Of Workforce Investment Failed To Ensure Financial Reports Were Accurate (Continued)**

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2 CFR § 200.303 indicates that the internal controls required to be established by a non-federal entity receiving federal awards should be in compliance with the guidance in “Standards for Internal Control in the Federal Government,” issued by the Comptroller General of the United States (Green Book) or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Section 13.04 – Relevant Data from Reliable Sources, within the Green Book states, in part,

Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Relevant data have a logical connection with, or bearing upon, the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability.

34 CFR 361.40 - Reports; Evaluation standards and performance indicators, states, in part,

(a) Reports.

- (1) The vocational rehabilitation services portion of the Unified or Combined State Plan must assure that the designated state agency will submit reports, including reports required under sections 13, 14, and 101(a)(10) of the Act. [...]
- (2) The designated State agency must comply with any requirements necessary to ensure the accuracy and verification of those reports.

RSA-PD-14-02, Annual Vocational Rehabilitation Program/Cost Report (RSA-2) instructions states, “VR agencies must submit an RSA-2 for each Federal Fiscal Year (FY) (October 1 – September 30).”

RSA-PD-15-05, SF-425 Form: VR State Grants Program Reporting Instructions, states, in part,

RSA uses the SF-425 data to monitor the financial status of the VR program and to assess grantee compliance with the fiscal requirements contained in the Rehabilitation Act of 1973 (Rehabilitation Act), as amended by the Workforce Innovation and Opportunity Act (WIOA). Therefore, the reports must be accurate and submitted timely. VR grantees must submit completed SF-425 reports on a semi-annual basis. The end dates for each reporting period in a fiscal year are 3/31 and 9/30.

#### **Recommendation**

We recommend DWI implement adequate internal controls over the preparation and review of SF-425 and RSA-2 reports to ensure information is complete, accurate, and complies with federal regulations. DWI should ensure that reports cover the correct reporting period. DWI should consult with the U.S. Department of Education for further guidance as necessary.

### **SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-047: The Department Of Workforce Investment Failed To Ensure Financial Reports Were Accurate (Continued)**

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##### **Management's Response and Planned Corrective Action**

*DWI concurs with the Auditors findings and recommendation and has modified procedures to ensure information is complete, accurate, and complies with federal regulations.*

*The Rehabilitation Services Administration (RSA) requires multiple federal reports to monitor the financial and programmatic status of all grantees who participate in the Vocational Rehabilitation (VR) program. In addition to monitoring each grantee's status, RSA requires reports to assess grantee compliance with requirements contained in the Rehabilitation Act of 1973 as amended by the Workforce Innovation and Opportunity Act (WIOA).*

*The Kentucky Office of Vocational Rehabilitation receives two formula grants from RSA that require the submission of federal reports:*

- *Rehabilitation Services Vocational Rehabilitation Grants to States (Basic Support) CFDA 84.126*
- *Supported Employment Services for Individuals with the Most Significant Disabilities (SE) CFDA 84.187*

*RSA requires the following reports and provides policy directives that include instructions for completing each report. The SF-425 is specific to each grant and the other reports are based on agency measures overall. Policy Directive are available on the RSA Website <https://rsa.ed.gov>*

- *SF-425 Semi Annual Financial Report Policy Directive RSA-PD-15-05*
- *RSA-2 Annual VR Program/Cost Report Policy Directive RSA-PD-06-08*
- *RSA -113 Quarterly Cumulative Caseload Report Policy Directive RSA-PD-06-07*
- *RSA-911 Annual Case Service Report Policy Directive RSA-PD-16-04*
- *RSA-692 Annual Grant Re-allotment Form*
- *RSA-722 Annual Report on the Appeals Process Policy Directive RSA-PD-16-02*

*Reports must be accurate and on time. The Kentucky Office of Vocational Rehabilitation (OVR) will adhere to the appropriate Policy Directive to prepare and submit each report. Staff preparing and submitting reports extract financial data from the state accounting system-EMARS and extract programmatic data the case management system (CMS). Agency administrative staff or an RSA representative should address specific questions regarding the entry of data in each report.*

### **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-048: The Cabinet For Health And Family Services Edits Were Not Sufficient To Prevent Or Detect Improper Payments For Ineligible Medicaid Recipients Or Providers**

State Agency:	<u>Cabinet for Health and Family Services</u>
Federal Program:	<u>CFDA 93.775 – State Medicaid Fraud Control Units</u> <u>CFDA 93.777 – State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare</u> <u>CFDA 93.778 – Medicaid Assistance Program</u>
Federal Agency:	<u>U.S. Department of Health and Human Services</u>
Pass-Through:	<u>Not Applicable</u>
Compliance Area:	<u>Allowable Costs/Cost Principles</u>
Questioned Costs:	<u>\$13,146</u>

This finding was reported in the 2016 Report of the Statewide Single Audit of the Commonwealth of Kentucky (SSWAK) Volume I as financial statement Finding 2016-008. Management's response and planned corrective action for Finding 2016-008 can be found in the SSWAK Volume I. The finding also identified matters impacting federal program compliance as described below.

Internal controls established by the Department of Medicaid Services' (DMS) Providers Licensure and Certification Branch did not detect the improper coding of the provider's primary specialty within the Kentucky Medicaid Management Information System (KYMMIS). Additionally, KYMMIS claims processing edits were not sufficient. There were no edits in place to verify that the dates of service for diagnosis-related group (DRG) claims were within the provider and member effective dates. If adequate edits were in place, the DRG claim would have been denied because the "first date of service" was outside of the "effective date." The resulting improper payments resulted in known questioned costs of \$13,146.

### **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-049: The Cabinet For Health And Family Services Paid Duplicate Benefits To Supplemental Nutrition Assistance Program And Temporary Assistance For Needy Families Recipients**

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State Agency:	<u>Cabinet for Health and Family Services</u>
Federal Program:	<u>CFDA 10.551 – Supplemental Nutrition Assistance Program</u> <u>CFDA 10.561 – State Administrative Matching Grants For The Supplemental Nutrition Assistance Program (SNAP)</u> <u>CFDA 93.558 – Temporary Assistance for Needy Families (TANF)</u>
Federal Agency:	<u>U.S. Department of Agriculture</u> <u>U.S. Department of Health and Human Services</u>
Pass-Through:	<u>Not Applicable</u>
Compliance Area:	<u>Allowable Costs/Cost Principles</u>
Questioned Costs:	<u>\$4,819</u>

This finding was reported in the 2016 Report of the Statewide Single Audit of the Commonwealth of Kentucky (SSWAK) Volume I as financial statement Finding 2016-006. Management's response and planned corrective action for Finding 2016-006 can be found in the SSWAK Volume I. The finding also identified matters impacting federal program compliance as described below.

Because of concerns about possible duplicate Electronic Benefit Transfer (EBT) accounts following the implementation of Benefind, a report of multiple Electronic Benefit Transfer (EBT) accounts that had repeating social security numbers was tested for possible duplicate payments of benefits.

The report identified 141 social security numbers that had multiple EBT accounts. Twenty individual cases were tested, and five cases had received duplicate payments of benefits. Of the five cases, three were cases in the Supplemental Nutrition Assistance Program (CFDA 10.551), and two were Kinship Care benefits (CFDA 93.558).

## **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-050: The Cabinet For Health And Family Services Made Improper Payments To Temporary Assistance For Needy Families Recipients**

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State Agency: Cabinet for Health and Family Services  
 Federal Program: CFDA 93.558 – Temporary Assistance for Needy Families (TANF)  
 Federal Agency: U.S. Department of Health and Human Services  
 Pass-Through: Not Applicable  
 Compliance Area: Allowable Cost/Cost Principles  
 Questioned Costs: \$1,200

The Cabinet for Health and Family Services (CHFS) implemented a new enrollment and eligibility system, Benefind, and placed it into operation on February 29, 2016. Benefind was designed to be an integrated eligibility system housing all federal programs, with the overall objective of providing one stop shopping for applying for Medicaid, Kentucky Children’s Health Insurance (KCHIP), Supplemental Nutrition Assistance Program (SNAP), and Temporary Assistance for Needy Families (TANF) eligibility programs. It was designed to allow for renewal of benefits, checking benefit amounts, reporting changes in status, uploading verification documents, checking claim status, making claims payments, and receiving electronic notices. It was also designed to identify all programs that an applicant had applied for and was eligible to receive.

Because duplicate Electronic Benefit Transfer (EBT) accounts relating to payment of Kinship Care (KC) benefits were documented in finding 2016-006 in the 2016 SSWAK Volume I, additional testing of KC cases was performed for the compliance audit of the TANF program.

Three additional exceptions were noted due to duplicate payments of KC benefits:

- One participant from Barren County received \$300 in duplicate KC payments,
- One participant from Jefferson County received \$300 in duplicate KC payments, and
- One participant from Pulaski County received \$600 in duplicate KC payments.

The exact cause of the duplicated benefits was not known at the completion of audit testing. Based on the timing of the errors, it appears that the generation of multiple accounts on the EBT provider’s network and duplication of benefit payments was due to a software error present at the launch of Benefind on February 29, 2016.

For the sample tested, three cases of duplicated benefits for KC were identified totaling \$1,200. Failure to implement adequate internal controls resulted in known questioned costs of \$1,200. The duplicate payment of benefits is an unallowable cost and therefore results in noncompliance with the federal program.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-050: The Cabinet For Health And Family Services Paid Duplicate Benefits To Temporary Assistance For Needy Families Recipients (Continued)**

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The agency is responsible for the timely and accurate issuance of benefits as outlined in 7 CFR 274.2(a):

Each State agency is responsible for the timely and accurate issuance of benefits to certified eligible households, including EBT system compliance with the expedited service benefit delivery standard and the normal application processing standards, as prescribed by these regulations. Those households located in rural areas or comprised of elderly or disabled members who have difficulty reaching issuance offices, and households which do not reside in a permanent dwelling or of a fixed mailing address shall be given assistance in obtaining an EBT card. State agencies shall assist these households by arranging for the mailing of EBT cards to them, by assisting them in finding authorized representatives who can act on their behalf, or by using other appropriate means.

Good internal controls dictate that CHFS ensure controls are in place within their systems. This includes properly monitoring benefit payments to ensure benefits are paid to eligible recipients at the correct amounts.

Further, the lack of internal controls has caused the agency to be out of compliance with the Improper Payments Elimination and Recovery Act (IPERA). The agency inadvertently made improper payments under OMB guidance, Public Law (Pub. L.) No. 107-300, the Improper Payments Information Act of 2002, as amended by Pub. L. No. 111-204, the Improper Payments Elimination and Recovery Act, Executive Order 13520 on reducing improper payments, and the June 18, 2010 Presidential memorandum to enhance payment accuracy, whereby federal agencies are required to take actions to prevent improper payments, review federal awards for such payments, and, as applicable, reclaim improper payments.

According to CFR §200.53:

- a) Improper payment means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and
- b) Improper payment includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-050: The Cabinet For Health And Family Services Paid Duplicate Benefits To Temporary Assistance For Needy Families Recipients (Continued)**

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**Recommendation**

We recommend a review of Kinship Care cases and payments to ensure there are no additional cases with duplicate payments. Further, CHFS should work to identify what caused the duplicate payments and make necessary changes to their systems or processes to prevent a recurrence of this issue. We recommend CHFS ensure sufficient review procedures and controls are in place to ensure compliance with federal regulations.

**Management's Response and Planned Corrective Action**

*The duplication of benefits noted on the Kinship Care cases happened after the cases had been converted from the KAMES eligibility system to Worker Portal. Through the conversion process, a second eligibility group was created on some KC cases resulting in issuance of duplicate benefits. The KC cases that had duplicate benefits issued were identified and the clients contacted by the Family Self-Sufficiency Branch in the Division of Family Support. The duplicate benefits were either recouped from the EBT account or in the case of the three cases in question, a claim was established to correct the over issuance through benefit reduction.*

### **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-051: The Cabinet For Health And Family Services Did Not Maintain All Eligibility Supporting Documentation For Those Receiving Temporary Assistance For Needy Families Benefits**

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State Agency: Cabinet for Health and Family Services  
 Federal Program: CFDA 93.558 – Temporary Assistance for Needy Families (TANF)  
 Federal Agency: U.S. Department of Health and Human Services  
 Pass-Through: Not Applicable  
 Compliance Area: Eligibility  
 Questioned Costs: \$14,400

This is a repeat finding. The original finding, 2015-052, was included in the 2015 SSWAK Volume I. During the fiscal year 2016 audit of the Cabinet for Health and Family Services (CHFS) Temporary Assistance for Needy Families' (TANF) program, member eligibility testing was performed. The TANF program is comprised of six federal assistance programs: Kentucky Transitional Assistance Program (KTAP), Kentucky Works Program (KWP), Kinship Care Program (KC), Family Alternatives Diversion Program (FAD), WIN Program (Work Incentive), and Safety Net. The CHFS Department of Community Based Services (DCBS) determines eligibility for each of these programs. As a part of TANF eligibility testing, the 60 month lifetime benefits rule for eligibility was also included in testing.

To ensure compliance with eligibility for the TANF program, case files in 11 counties across six DCBS regions were selected for testing. Testing results indicated CHFS was not in compliance with federal regulations regarding member eligibility requirements for Kinship Care. Furthermore, CHFS did not maintain proper supporting documentation or authorizations at the local DCBS offices or in the Electronic Case File (ECF) systems, thus reducing the assurance of proper eligibility determination by DCBS personnel. Testing results noted the following exceptions:

- Barren Co: One participant was missing Form KIM 78 KC Protection and Permanency Referral.
- Estill Co: One participant was missing Form KIM 78 KC Protection and Permanency Referral.
- Fayette Co: One participant was missing Form KIM 78 KC Protection and Permanency Referral.
- Russell Co: One participant was missing Form KIM 78 KC Protection and Permanency Referral.
- Jefferson Co: One participant was missing Form KIM125-NCP for the father.

CHFS failed to keep the required documentation to support and verify eligibility for individual TANF recipients. CHFS also failed to follow its rules and procedures outlined in the DCBS Operational Manual Volume I required by 922 KAR 1:130.

### **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-051: The Cabinet For Health And Family Services Did Not Maintain All Eligibility Supporting Documentation For Those Receiving Temporary Assistance For Needy Families Benefits (Continued)**

If DCBS does not maintain adequate case file documentation it cannot document the determination of a recipient's eligibility to receive benefit payments in accordance with Kentucky administrative regulations. Inadequate case documentation and improper eligibility determination procedures can lead to an increased risk of improper benefits being issued to ineligible recipients. There is an increased risk that errors or fraud may occur. The risk for fraud within these programs is significant because eligible recipients can receive cash assistance. Further, since Form KIM-78 KC is required to be eligible for benefits, all benefits paid in cases with missing forms have resulted in improper payments to the recipients. As such, these improper payments resulted in known questioned costs of \$14,400.

In addition to the increased risk of fraud within the program, there is also the concern that recipients could get additional benefits that they are no longer eligible to receive. When case file documentation is missing there is a risk that individuals could reapply for benefits either before the required 24 month waiting period expires or apply for benefits more than twice in the beneficiary's lifetime.

KRS 205.200(a) sets forth eligibility for public assistance:

A needy aged person, a needy blind person, a needy child, a needy permanently and totally disabled person, or a person with whom a needy child lives shall be eligible to receive a public assistance grant only if he has made a proper application or an application has been made on his behalf in the manner and form prescribed by administrative regulation. No individual shall be eligible to receive public assistance under more than one (1) category of public assistance for the same period of time.

922 KAR 1:130. Kinship Care Program states in part:

#### **Section 5. Completion of Initial Eligibility Determination.**

- (1) To satisfactorily complete the initial eligibility determination, a caretaker relative of a child shall meet the following requirements to qualify as a kinship caregiver: [...]
  - (d) Agree to and sign the "KC-01 Kinship Care Program Statement of Rights and Responsibilities".
- (2) The child's designated cabinet worker shall utilize Form "KIM-78KC Kinship Care Financial Assistance Application", to refer the caretaker relative and child to the appropriate cabinet staff for an eligibility determination of the Kinship Care Program's financial assistance for the child.
- (3) Prior to the financial assistance eligibility determination by the cabinet for receipt of the Kinship Care Program's financial assistance, the "KIM-78KC Kinship Care Financial Assistance Application" shall be signed and dated by:
  - (a) The designated cabinet worker assigned to the child; and
  - (b) 1. The caretaker relative with whom the child is placed; or
    2. A representative authorized in writing to act on behalf of the caretaker relative.

## **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-051: The Cabinet For Health And Family Services Did Not Maintain All Eligibility Supporting Documentation For Those Receiving Temporary Assistance For Needy Families Benefits (Continued)**

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Section 6. Application Process for the Kinship Care Program.

- (1) The date of the "KIM-78KC, Application for Kinship Care Financial Assistance", shall be:
  - (a) Within the timeframes established in Section 2 of this administrative regulation; or
  - (b) In accordance with Section 12 of this administrative regulation.
- (2) The caretaker relative shall be the primary source of a child's information and shall:
  - (a) Furnish verification of income, resources, and technical eligibility, as required by Section 8 of this administrative regulation; and
  - (b) Give written consent to those contacts necessary to verify or clarify a factor pertinent to the decision of eligibility.

Section 9. Ineligible Child for the Kinship Care Program. A child shall not be eligible for the Kinship Care Program if the:

- (1) Child applying for the Kinship Care Program does not have a KIM-78KC signed by the cabinet worker designated to monitor the child's permanency, safety, and well-being;
- (2) Child's parental relative resides with the child or has legal custody of the child, including joint custody; [or]
- (3) Prospective caretaker relative of a child declines by form KC-01 the initial offer of the Kinship Care Program and related benefits[.]

CHFS Volume III K-TAP Program, R 3/1/16 MS 5040, states:

The following children are not eligible for Kinship Care payments:

- A. A child for whom form KIM-78KC, Kinship Care Financial Assistance Application, with entries indicating the date of placement, KC-01 completion date, caretaker relative's home evaluation approval date, referral date to Family Support, and signature of the Protection and Permanency (P&P) worker designated to monitor a child's protective service case is not provided by P&P staff. If P&P does not provide all the paperwork by 3/31/13 to the local Family Support office, the child is not eligible for Kinship Care; however, an application for KTAP, MA and/or SNAP may be taken.

According to CHFS, DCBS Operational Manual Volume I:

Section MS 0030: The case record is the official document of the Department that establishes accountability for the expenditure of state and federal funds. Local management staff is responsible for ensuring case records are properly maintained, purged of obsolete material, and accessible to staff.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-051: The Cabinet For Health And Family Services Did Not Maintain All Eligibility Supporting Documentation For Those Receiving Temporary Assistance For Needy Families Benefits (Continued)**

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Section MS 0040: Hardcopy case records are required to be retained for a length of time specified by each program. With the implementation of the Electronic Case File (ECF), existing hardcopy case records are retained following normal purging procedures. Any form or verification scanned into ECF will become a permanent record.

TANF has a required record retention of five years.

**Recommendation**

We recommend CHFS ensure all documentation required to support member eligibility determinations is obtained and maintained on file. Furthermore, we recommend DCBS properly train staff to ensure eligibility determinations for TANF members are verified and substantiated by adequate supporting documentation. Because eligibility to receive Kinship Care payments is dependent upon properly completed KIM-78KC and KC-01 forms, every effort should be made to obtain and properly maintain these documents.

**Management's Response and Planned Corrective Action**

*On the exceptions noted for Russell County and Jefferson County respectively, the KIM78KC was located and scanned into the system and for Jefferson the client was contacted and came into the office and completed the KIM 125 that was missing.*

*DCBS agrees with the exceptions noted for Barren, Estill, and Fayette Counties and continues to work with field staff to locate the missing documentation or obtain updated documentation to scan into the Electronic Case File system (ECF). It should be noted that some of the missing documentation identified in this exception pre-dates the Department's change to ECF. Not all historic eligibility documents could be scanned, and as such are kept in paper files in the county of application for the duration of the records retention period.*

*The Division of Family Support (DFS) will work with the Division of Service Regions (DSR) and the regional Public Assistance Program Specialists to ensure that the exceptions identified are corrected and that the appropriate policy is reviewed with staff.*

*The Division of Family Support issues instructional material to local field staff on a regular, on-going basis. Tips are posted weekly on the Eligibility System on various topics related to the proper application of policy and procedures. DFS has developed and will issue tips on a quarterly basis to remind staff of procedures outlined in Volume I, MS 0030 and MS 0040 to ensure information is available on proper maintenance of case files. Additionally, a Family Support Memorandum (FSM) is issued annually which provides information for properly maintaining case records.*

## **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-052: The Cabinet For Health And Family Services Did Not Maintain Documentation Necessary To Confirm Provider Eligibility**

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State Agency:	<u>Cabinet for Health and Family Services</u>
Federal Program:	<u>CFDA 93.775 – State Medicaid Control Units</u> <u>CFDA 93.777 – State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare</u> <u>CFDA 93.778 – Medical Assistance Program</u> <u>CFDA 93.767 – Children’s Health Insurance Program (CHIP)</u>
Federal Agency:	<u>U.S. Department of Health and Human Services</u>
Pass-Through:	<u>Not Applicable</u>
Compliance Area:	<u>Special Tests and Provisions</u>
Questioned Costs:	<u>\$0</u>

In order to ensure internal controls are operating effectively and the Cabinet for Health and Family Services (CHFS) is in compliance with federal regulations for provider eligibility, provider eligibility testing was designed to ensure all required documentation was on file with the agency. The results of testing noted nine exceptions because CHFS had not maintained documentation necessary to confirm the provider’s eligibility.

The provider eligibility case files are imaged and stored in the OnBase application located within the Medicaid Management Information System (MMIS). These files are required in order to support determinations that Medicaid enrolled providers met federal and state eligibility requirements to participate in the Medicaid Program.

The following exceptions were noted during testing of OnBase provider eligibility case files:

- Five providers did not have a verified National Provider Identifier and Taxonomy Code documented;
- One provider did not document their social security card;
- One provider did not have a signed application (Form 811);
- One provider did not have an IRS letter of verification of FEIN or official IRS documentation stating FEIN; and
- One provider did not have a documented re-credentialed license.

CHFS’s procedures were not adequate to ensure proper documentation was imaged and retained to support provider eligibility determinations.

Proper documentation supporting provider eligibility was not available in the Kentucky Medicaid Management Information System. As a result, CHFS was not in compliance with provider eligibility requirements and risks making payments for Medicaid services to ineligible providers. The risk of paying ineligible providers is also increased because CHFS has not made timely updates to their policies and procedures. Up to date policies and procedures ensure that in the absence of knowledgeable staff, any member of the agency or a new staff member will be able to perform required duties.

### **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-052: The Cabinet For Health And Family Services Did Not Maintain Documentation Necessary To Confirm Provider Eligibility (Continued)**

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42 CFR 431.107 requires:

- (a) Basis and purpose. This section sets forth State plan requirements, based on sections 1902(a)(4), 1902(a)(27), 1902(a)(57), and 1902(a)(58) of the Act, that relate to the keeping of records and the furnishing of information by all providers of services (including individual practitioners and groups of practitioners).
- (b) Agreements. A State plan must provide for an agreement between the Medicaid agency and each provider or organization furnishing services under the plan in which the provider or organization agrees to: [...]
- (4) Comply with the advance directives requirements for hospitals, nursing facilities, providers of home health care and personal care services, hospices, and HMOs specified in part 489, subpart I, and § 417.436(d) of this chapter.
- (5)(i) Furnish to the State agency its National Provider Identifier (NPI) (if eligible for an NPI); and
- (ii) Include its NPI on all claims submitted under the Medicaid program.

907 KAR 1:672 states in part:

- Section 1(15) “Reevaluation” or “re-credentialing” means a process for identifying a change that may have occurred in a health care provider since the last evaluation or credentialing that may affect the health care provider’s ability to perform services.
- Section 2(9) Re-credentialing. A credentialed provider currently enrolled in the Medicaid Program shall submit to the department’s recredentialing process three (3) years from the date of the provider’s initial evaluation or last reevaluation.

Sound internal controls dictate that CHFS policies and procedures for handling daily functions are documented. This will strengthen agency internal controls, which will improve compliance with federal regulations.

2 CFR section 200.303 indicates that the internal controls required to be established by a non-Federal entity receiving Federal awards should be in compliance with the guidance in “Standards for Internal Control in the Federal Government,” issued by the Comptroller General of the United States (Green Book) or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-052: The Cabinet For Health And Family Services Did Not Maintain Documentation Necessary To Confirm Provider Eligibility (Continued)**

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Principle 3 of COSO states in part:

- 3.09 Management develops and maintains documentation of its internal control system.
- 3.10 Effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.
- 3.10 Management documents internal control to meet operational needs. Documentation of controls, including changes to controls, is evidence that controls are identified, capable of being communicated to those responsible for their performance, and capable of being monitored and evaluated by the entity.
- 3.11 The extent of documentation needed to support the design, implementation and operating effectiveness of the five components of internal control is a matter of judgement for management. Management considers the cost benefit of documentation requirements for the entity as well as the size, nature and complexity of the entity and its objectives. Some level of documentation, however, is necessary so that the components of internal control can be designed, implemented, and operating effectively.

**Recommendation**

We recommend CHFS ensure all required provider documentation necessary to support provider eligibility determination and revalidation is obtained, imaged, and maintained on file within the KYMMIS OnBase application. Further, CHFS should ensure that Provider Enrollment policies and procedures are up to date with the latest requirements and are properly documented to ensure the process can identify and remove providers that do not meet the requirements to participate in the Medicaid program.

**Management's Response and Planned Corrective Action**

*The requirement to obtain and/or use a National Provider Identifier (NPI) when participating in Kentucky Medicaid was not implemented until May of 2008. The five providers identified as not having properly verified NPIs and/or Taxonomy Codes documented all enrolled prior to that date. Thus, NPI and/or Taxonomy Code verification letters would not have been submitted with their initial enrollment applications. DMS would not have any reason to obtain NPI or Taxonomy verification documentation unless the provider sought to change information on their provider file or until the provider is periodically revalidated as required by state and federal requirements. However, there was a period of time when DMS was, based on guidance given by CMS, relying on a provider's Medicare revalidation in order to revalidate that provider with Medicaid.*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-052: The Cabinet For Health And Family Services Did Not Maintain Documentation Necessary To Confirm Provider Eligibility (Continued)**

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**Management's Response and Planned Corrective Action (Continued)**

*Based on subsequent guidance, DMS now independently verifies NPI and Taxonomy Codes. Thus, procedures are already in place to ensure that NPI and Taxonomy Code verification documentation is gathered, imaged and stored for newly enrolling providers, as well as, providers undergoing revalidation.*

*The one provider whose social security card was not properly documented enrolled in 2006. At that time a social security card was not required to be submitted as part of the enrollment screening process. Current procedures require enrollment staff to obtain an image of the provider's social security card upon enrollment and/or revalidation unless there is a rare circumstance where the director has authorized temporary enrollment of a qualified provider for a limited period of time without first requiring receipt of an image. Such circumstances include when the provider is providing services that are unique or to an underserved population or region of the state, or the services provided are for an emergency or life threatening event. Even under these circumstances, the provider is required to disclose his or her social security number and all required screening requirements are completed.*

*The final three findings all relate to missing documentation in OnBase. Procedures are currently in place to ensure the proper imaging of all enrollment/maintenance documentation. However, we continue to use a manual process that requires the imaging of submitted documentation, which creates a risk that an enrollment application or maintenance item could be improperly indexed when imaged and therefore, nearly impossible to find. That is most likely what happened in these instances. Automation of our enrollment process through Partner Portal should eliminate some of this human error as the system will electronically capture information entered by the provider and require supporting documentation to be uploaded before any enrollment documentation can be submitted to DMS. Partner Portal is scheduled to go live internally in late summer of 2017 and is scheduled to go live for all provider types in the first quarter of 2018.*

## **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-053: The Cabinet For Health And Family Services Did Not Allocate Eligible Systems Development Costs In Accordance With the Advanced Planning Document**

State Agency:	<u>Cabinet for Health and Family Services</u>
Federal Program:	<u>CFDA 93.775 – State Medicaid Control Units</u> <u>CFDA 93.777 – State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare</u> <u>CFDA 93.778 – Medical Assistance Program</u> <u>CFDA 93.767 – Children’s Health Insurance Program (CHIP)</u>
Federal Agency:	<u>U.S. Department of Health and Human Services</u>
Pass-Through:	<u>Not Applicable</u>
Compliance Area:	<u>Allowable Costs/Cost Principles, Matching</u>
Questioned Costs:	<u>\$0</u>

The Affordable Care Act, section 1413(a) maintains that in addition to providing an insurance marketplace at the state level, the Health Benefit Exchange (HBE) is also required to function as the state’s Medicaid Management Information System (MMIS) by offering enrollment opportunities to residents, providing eligibility determinations, and claims processing.

If the system qualifies as an MMIS, the costs related to the design, development, and implementation of the system are eligible for enhanced administrative funding from the federal government under Title XIX of the Social Security Act.

According to Section 1903(a)(3)(A)(i) of the Social Security Act, costs that are related to the design, development, and implementation of a qualifying MMIS are subject to “enhanced” Federal Financial Participation (FFP) of 90 percent. Additionally, section 1903(a)(3)(B) of the Social Security Act details an “enhanced” Federal Fund Participation (FFP) rate of 75 percent for costs associated with operating the system, which includes eligibility determinations. These costs are considered “enhanced” because these percentages are greater than the “standard” Federal Fund Participation (FFP) rate of 50 percent.

To apply enhanced funding FFP rates to eligible costs, states must collaborate with the Center for Medicare and Medicaid Services (CMS) to develop an approved plan called the Advanced Planning Document (APD). An APD is essentially a cost allocation plan, a narrative description of the procedures that the agency uses in identifying, measuring, and allocating all state agency costs incurred in support of a program. A state that chooses to develop, enhance, or replace the required MMIS must first submit an Advanced Planning Document to CMS for their approval. After approval, the cabinet is then responsible for executing the agreed upon cost allocation plan.

Test procedures compared expenditures processed by the Office of the Kentucky Health Benefit Exchange and Medicaid to determine if costs for approved APDs were applied correctly. In doing so, the following language was found in the 2015 Implementation and Advanced Planning Document:

The contact center estimates 90.30% of the Call Center’s work is Pre-Eligibility work, which would allow for the enhanced match rate once fully operational. The remaining 9.7% is work done for post eligibility work, which in turn would receive a 50/50 FFP rate.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-053: The Cabinet For Health And Family Services Did Not Allocate Eligible Systems Development Costs In Accordance With the Advanced Planning Document (Continued)**

The above asserts that approximately 90 percent of call center costs are associated to activities that should be applied to Medicaid using the section 1903(a)(3)(B) “enhanced” FFP rate of 75 percent, as these costs are operational.

A call center invoice was split incorrectly 50/50 between “enhanced” FFP funding and the “standard” FFP. This error occurred because prior to entering costs into the statewide accounting system, eMARS, CHFS policy analysts are required to place the total invoice amount into a workbook in order to apply the appropriate split. In this case, the \$940,982 was split 50/50 during workbook calculations. The totals were then entered into eMARS for payment and federal drawdown purposes using predefined accounting templates used to divide the totals further between HBE Operations, Medicaid enhanced FFP rates, Medicaid Standard FFP rates, and KCHIP.

During this process, \$379,216 in costs allocable to Medicaid were reimbursed under the incorrect FFP resulting in \$68,714 in eligible operational costs being paid by state funds instead of by federal funds.

Internal controls failed to detect miscalculations prior to data entry and amounts were incorrectly entered into eMARS and applied to the Medicaid grant in error. Furthermore, the lack of adequate review procedures did not ensure the calculations, accounting templates, and entries were accurate and properly applied.

Failure to implement adequate controls resulted in costs of \$379,215 that were eligible to be paid under enhanced funding rates to be applied incorrectly due to a miscalculation that split “enhanced” FFP eligible costs and “standard” FFP eligible call center costs 50/50 instead of 90/10 as depicted in the APD. This resulted in \$68,714 in eligible operational costs being paid by the state instead of by Medicaid.

Good internal control dictates that calculations should be reviewed at the time the transaction is created to ensure that amounts are applied correctly per the approved cost allocation plan. As previously mentioned, the 2015 Implementation and Advanced Planning Document states:

The contact center estimates 90.30% of the Call Center’s work is Pre-Eligibility work, which would allow for the enhanced match rate once fully operational. The remaining 9.7% is work done for post eligibility work, which in turn would receive a 50/50 FFP rate.

In the course of adhering to the APD, this allows cost payments to comply with associated statutes as they work in conjunction.

As previously mentioned, section 1903(a)(3)(B) of the Social Security Act details an “enhanced” FFP rate of 75 percent for costs associated with operating the system, which includes eligibility determination.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-053: The Cabinet For Health And Family Services Did Not Allocate Eligible Systems Development Costs In Accordance With the Advanced Planning Document (Continued)**

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**Recommendation**

We recommend CHFS implement sufficient procedures and controls to provide correct financial reporting. Procedures should be in place to perform proper reviews on all transactions along with the associated supporting documentation before submitting transactions for approval. Additionally, amounts should be substantiated to ensure they are recorded properly in the financial reporting system and applied to the federal programs at the correct rates as prescribed by approved cost allocation plans and federal statutes.

**Management's Response and Planned Corrective Action**

*The Office of Administrative and Technology Services, Division of Procurement and Grant Oversight has corrected this by adding additional budget approvals prior to payments being issued. Prior to sending to the Division of Accounting, the buyer responsible evaluates the request to ensure the Department budget staff has approved the document for accuracy. This will ensure the correct accounting information is utilized prior to issuing payments.*

## **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-054: The Cabinet For Health And Family Services Submitted Federal Reports Containing Errors Due To Duplications Of Data In Supporting System Reports**

State Agency:	<u>Cabinet for Health and Family Services</u>
Federal Program:	<u>CFDA 93.775 – State Medicaid Control Units</u> <u>CFDA 93.777 – State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare</u> <u>CFDA 93.778 – Medical Assistance Program</u> <u>CFDA 93.767 – Children’s Health Insurance Program (CHIP)</u>
Federal Agency:	<u>U.S. Department of Health and Human Services</u>
Pass-Through:	<u>Not Applicable</u>
Compliance Area:	<u>Reporting</u>
Questioned Costs:	<u>\$0</u>

The Cabinet for Health and Family Services (CHFS) submits the CMS-64 report quarterly to report expenditures of the Medicaid and the Kentucky Children’s Insurance federal programs. The purpose of this report is to support the reimbursements that have been received under these grant programs. This report only includes expenditures that have actually occurred and is reduced by the amount of rebates, funds that have been recovered through various means, and expenditure corrections. These amounts are obtained via reports extracted from the Kentucky’s Medicaid Management Information System (KYMMIS).

During fiscal year 2016, CHFS identified errors contained in the various reports extracted from KYMMIS that resulted in \$65 million dollars of federal expenditures that had not been reimbursed to Kentucky over a four year period.

The instructions for completing the CMS-64 included an adjustment for the amount recouped from the Recovery Audit Contractor (RAC) as a separate line item and CHFS complied with this instruction. However, another deduction of the RAC amounts was made in error based on a KYMMIS system report that included the same recoupments included in the RAC. This resulted in the RAC amounts being deducted twice and incorrectly reducing the federal reimbursement Kentucky was entitled to receive.

When CHFS identified this error, they continued researching the reports that were compiled from KYMMIS for the purpose of identifying adjustments to federal Medicaid and KCHIP expenditures and identified additional errors in the reports that had resulted in duplicated information and additional inaccurate reductions to the Commonwealth’s federal reimbursement totaling \$65 million.

Primarily, the errors noted in the KYMMIS reports were the accumulation of changes or updates made to the KYMMIS system that resulted in changes to the fields and parameters of the KYMMIS reports that were used for compiling the CMS-64. While the reports were designed to pull only certain types of adjustments, over time the system changes caused the data on these reports to include duplicated or incorrect items.

CHFS has requested reimbursement of these amounts. As a result, \$35 million was refunded for fiscal years 2015 and 2014. While their request for refund of the additional \$30 million has been denied, they are continuing to work through the appeal process.

## **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-054: The Cabinet For Health And Family Services Submitted Federal Reports Containing Errors Due To Duplications Of Data In Supporting System Reports (Continued)**

Per instructions for the CMS-64:

Form CMS-64 is a statement of expenditures for which states are entitled to Federal reimbursement under Title XIX and which reconciles the monetary advance made on the basis of Form CMS-37 filed previously for the same quarter. Consequently, the amount claimed on the Form CMS-64 is a summary of expenditures derived from source documents such as invoices, cost reports and eligibility records. All summary statements or descriptions of each claim must identify the claim and source documentation. Claims developed through the use of sampling, projections, or other estimating techniques are considered estimates and are not allowable under any circumstances. Where states are unable to develop and document a claim for expenditures on a current basis, they must withhold it until the actual amount, supported by final documentation, has been determined. The state must report that amount on a future Form CMS-64 as a prior period adjustment.

2 CFR 200.303 indicates that the internal controls required to be established by a non-federal entity receiving federal awards should be in compliance with the guidance in “Standards for Internal Control in the Federal Government,” issued by the Comptroller General of the United States (Green Book) or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Principle 13 of COSO states in part:

- 13.03 Management identifies information requirements in an iterative and ongoing process that occurs throughout an effective internal control system. As change in the entity and its objectives and risks occurs, management changes information requirements as needed to meet these modified objectives and address these modified risks.
- 13.04 Management obtains relevant data from reliable internal and external sources in a timely manner based on identified information requirements. Relevant data have a logical connection with, or bearing upon, the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability. Sources of data can be operational, financial, or compliance related. Management obtains data on a timely basis so that they can be used for effective monitoring.

Sound internal controls require that CHFS continually evaluate the reliability and accuracy of the data extracts used for federal reporting to ensure that the information extracted is a reliable and accurate reflection of actual federal expenditures and recoupments or other adjustments to Medicaid and KCHIP expenditures, as reported in the CMS-64 and other reports.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-054: The Cabinet For Health And Family Services Submitted Federal Reports Containing Errors Due To Duplications Of Data In Supporting System Reports (Continued)**

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**Recommendation**

As a result of finding and correcting the noted errors, CHFS has begun to implement procedures to complete a thorough evaluation of the reports created through KYMMIS. This should help ensure that proper controls are in place to evaluate future system changes to KYMMIS and determine any impact these changes would have on reports created through the system. We recommend that CHFS ensure that this process is included formally in their policies and procedures.

**Management's Response and Planned Corrective Action***Department for Medicaid Services Response*

*DMS Division of Fiscal Management and CHFS Division of General Accounting currently has a reconciliation procedure in place to reconcile the weekly financial cycle reports. However, during an in-depth review of the Kentucky Medicaid Management Information System (KYMMIS) reports, CHFS staff discovered errors within the logic of the KYMMIS reports. These errors were the accumulation of changes or updates made to the KYMMIS system, that resulted in changes to the fields and parameters of the KYMMIS reports that were used for compiling the CMS-64. While the reports were designed to pull only certain types of adjustments, over time the system changes caused the data on these reports to include duplicated or incorrect items.*

*As a result of the issues identified by CHFS staff, a corrective action plan (CAP) was opened for the KYMMIS contractor. As part of this CAP, the KYMMIS contractor and CHFS staff are currently meeting once per week to review the reports utilized by DGA to complete the CMS-64 and ensure all parties understand what information is included in each report. The KYMMIS contractor is in the process of identifying what reports should balance/reconcile to other reports, correcting any issues identified by CHFS staff, and developing a reconciliation process of all KYMMIS reports currently being utilized by CHFS staff in completing of the CMS-64. This process is still in the research and development stage. The completion date for this action is unknown at this time.*

*The KYMMIS contractor has instituted a quality control review process in which it conducted enhanced production verification reviews of reports identified as used for the CMS-64 reporting. There has also been a process added to any future systematic updates/changes to provide an impact analysis across all subsystems and/or reports within the KYMMIS*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-054: The Cabinet For Health And Family Services Submitted Federal Reports Containing Errors Due To Duplications Of Data In Supporting System Reports (Continued)**

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**Management's Response and Planned Corrective Action (Continued)***Office of Administrative and Technology Services Response*

*During Q1, FY16, while reconciling the 2015 Payment Management System account, CHFS Staff discovered that the Recovery Audit Contractor (RAC) recoupments were being reported twice, once as a reduction on the expenditure spreadsheet, and again as a reduction on the RAC collections, a separate line item on the CMS-64 report. This resulted in the RAC amounts being deducted twice and incorrectly reducing the federal reimbursement. Once this was discovered, CHFS Staff worked with the KYMMIS contractor, to review all reports used in the filing of the CMS-64 report. Corrective action was taken by CHFS Staff by adding the RAC recoupments back into the expenditure spreadsheet. CHFS Staff processed adjustments on the CMS-64 report and \$35 million was refunded for fiscal years 2015 and 2014 for all errors identified in the KYMMIS reports.*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-055: The Department Of Workforce Investment Failed To Prevent Claimants From Receiving Benefits When Eligibility Review Requirements Were Not Met**

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State Agency: Department of Workforce Investment  
Federal Program: CFDA 17.225 – Unemployment Insurance (UI)  
Federal Agency: U.S. Department of Labor  
Pass-Through: Not Applicable  
Compliance Area: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility  
Questioned Costs: \$3,982

This finding was reported in the 2016 Report of the Statewide Single Audit of the Commonwealth of Kentucky (SSWAK) Volume I as financial statement Finding 2016-018. Management's response and planned corrective action for Finding 2016-018 can be found in the SSWAK Volume I. The finding also identified matters impacting federal program compliance as described below.

This is a repeat of finding 2015-058 as reported in the 2015 Statewide Single Audit of Kentucky (SSWAK) Volume II. The structure of the Federal-State Unemployment Insurance (UI) partnership is based on federal statute; however, it is implemented through state law. As identified during financial statement testing, the Department of Workforce Investment (DWI) failed to ensure UI claimants were registered for Employment Services (ES) prior to receiving UI benefits in accordance with state laws and regulations. Implemented compensating controls require claimants to complete an Eligibility Review (ER) within six weeks of the initial claim, which was used to verify successful ES registration. Internal controls were not adequately designed as local employment office staff had the ability to override system controls allowing claimants to be paid without completing the required ER. This resulted in \$3,982 in known questioned costs as calculated by the UI benefits received by the claimant while ineligible.

### **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-056: The Department Of Workforce Investment Failed To Adequately Document Monitoring Activities Over Workforce Innovation And Opportunity Act Subrecipients**

State Agency: Department of Workforce Investment  
 Federal Program: CFDA 17.258 – WIA/WIOA Adult Program  
CFDA 17.259 – WIA/WIOA Youth Activities  
CFDA 17.278 – WIA/WIOA Dislocated Worker Formula Grants  
 Federal Agency: U.S. Department of Labor  
 Pass-Through: Not Applicable  
 Compliance Area: Subrecipient Monitoring  
 Questioned Costs: \$0

This is a repeat of finding 2015-047 as reported in the 2015 Report of the Statewide Single Audit of the Commonwealth of Kentucky (SSWAK) Volume II. The Department of Workforce Investment (DWI) failed to monitor Workforce Innovation and Opportunity Act (WIOA) subrecipients in accordance with federal guidelines. Although subrecipient monitoring procedures were conducted and reports were prepared, DWI failed to have a policy and procedures manual in place during fiscal year 2016 to ensure monitoring activities performed complied with federal regulations. Additionally, DWI failed to formally document several key elements essential to monitoring activities, including:

- The evaluation of each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward;
- The evaluation and review of the Local Workforce Development Area's (LWDA) audit reports, including the assessment of any reported findings and recommendations; and
- DWI did not have a policy requiring documentation of the rationale and reasoning for removing findings and recommendations between draft and final monitoring reports. No instances were identified in the current fiscal year of monitoring report findings being removed; however, a policy is necessary to address deficiencies noted in prior year audit findings.

The prior year finding identified standard operating procedures did not outline required federal regulations, and without sufficient documentation of procedures completed, it was indeterminable whether conclusions could be drawn supporting a subrecipient's compliance with federal regulations. Following the issuance of the prior year finding, DWI prepared a formal standard operating procedures manual effective July 1, 2016 establishing subrecipient monitoring procedures.

DWI did not have a formalized policy in place during fiscal year 2016 to ensure subrecipient monitoring procedures were adequate and in compliance with federal requirements. DWI indicated in discussions that it appropriately evaluates risk assessment for subrecipients, adequately reviews audit reports, and properly discusses the removal of findings within monitoring reports. However, without this being documented, there is no evidence to support any determinations or conclusions made.

### **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-056: The Department Of Workforce Investment Failed To Adequately Document Monitoring Activities Over Workforce Innovation And Opportunity Act Subrecipients (Continued)**

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Failure to ensure sufficient subrecipient monitoring policies and procedures are in place and working effectively leaves federal funds at risk of fraud, waste, or abuse, and could lead to substantial federal noncompliances. For example, during fiscal year 2016, the Education and Workforce Development Cabinet (EWDC) issued a final determination to a subrecipient identifying \$2,564,363 in questioned costs. This was a result of a 2014 external examination which covered several fiscal years. Adequately developed monitoring procedures could help alleviate the possibility of similar noncompliances occurring in the future.

WIOA Sec. 184 Fiscal Controls; Sanctions states, in part,

(a) Establishment of Fiscal Controls by States.

- (1) In general. Each State shall establish such fiscal control and fund accounting procedures as may be necessary to assure the proper disbursement of, and accounting for, Federal funds allocated to the local areas under subtitle B. Such procedures shall ensure that all financial transactions carried out under subtitle B are conducted and records maintained in accordance with generally accepted accounting principles applicable in each State.
- (3)(A) In general. Each State (including the Governor of the State), local area (including the chief elected official for the area), and provider receiving funds under this title shall comply with the appropriate uniform administrative requirements for grants and agreements applicable for the type of entity receiving the funds, as promulgated in circulars or rules of the Office of Management and Budget.
- (4) Monitoring. Each Governor of a State shall conduct on an annual basis onsite monitoring of each local area within the State to ensure compliance with the uniform administrative requirements referred to in paragraph (3).

2 CFR 200.331 Requirements for pass-through entities, states, in part,

All pass-through entities must: [...]

- (b) Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for the purpose of determining the appropriate subrecipient monitoring described in paragraphs (d) and (e) of this section.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-056: The Department Of Workforce Investment Failed To Adequately Document Monitoring Activities Over Workforce Innovation And Opportunity Act Subrecipients (Continued)**

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**Recommendation**

Effective July 1, 2016, DWI has implemented formal subrecipient monitoring policies and procedures. We recommend DWI continuously review and update these policies and procedures to adapt to changing federal regulations as necessary. Additionally, we recommend DWI formally document the evaluation of subrecipient risk assessment, annual audit reports, and subrecipient monitoring findings. Conclusions of the evaluation should be evident in order to provide a clear audit trail of the determinations made.

**Management's Response and Planned Corrective Action**

*The main issue cited is that there was a need for additional policy, procedure, and documentation of certain monitoring practices. As stated by the APA, subrecipient monitoring procedures were conducted, reports were prepared, and a policy and procedures manual was put in place as of July 1, 2016. Additionally, the Office of Employment and Training Monitoring Team is in the process of developing a risk assessment toolkit that will be separate of the other toolkits. Although the OET Monitoring team believes that the other toolkits being used as a program risk assessment procedure were effective, due to the lack of documentation of those processes, a decision was made to develop separate tools/procedures to eliminate confusion.*

*In response to the cause and effect statements: although the overarching premise is accurate, since the 2014 example, DWI has been diligently compiling revised policies and procedures, working within the parameters of the new guidance, and has provided all back up documents requested. There have been no citations of oversight by our monitoring efforts other than we did not have written procedures in place during the fiscal year being audited.*

*The OET Monitoring Team is also developing a much more robust participant cost and eligibility spreadsheet including references to applicable WIOA law. OET Monitoring team believes this will foster a more efficient methodology during report creation. This new tool will provide a clear flow from finding to law.*

**Auditor's Reply**

Management's response indicates "there have been no citations of oversight by our monitoring efforts other than we did not have written procedures in place during the fiscal year being audited." Management asserts it reviewed audit reports and completed risk assessment of subrecipients as required; however, completion of these procedures was not formally documented. Full compliance cannot be substantiated without adequate documentation and evidence of procedures performed. Additionally, management should not undervalue the importance of a policy and procedures manual as it helps promote consistency in monitoring activities, while providing a crucial link to federal requirements under review.

## **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-057: The Department Of Workforce Investment Failed To Ensure The Accuracy Of Data For Local Workforce Development Areas On Submitted Reports**

State Agency: Department of Workforce Investment  
 Federal Program: CFDA 17.258 – WIA/WIOA Adult Program  
CFDA 17.259 – WIA/WIOA Youth Activities  
CFDA 17.278 – WIA/WIOA Dislocated Worker Formula Grants  
 Federal Agency: U.S. Department of Labor  
 Pass-Through: Not Applicable  
 Compliance Area: Reporting, Subrecipient Monitoring  
 Questioned Costs: \$0

This is a repeat of finding 2015-061 as reported in the 2015 Statewide Single Audit of Kentucky (SSWAK) Volume II. The Department of Workforce Investment (DWI) failed to ensure the accuracy of data provided by the Local Workforce Development Areas (LWDA) as utilized in the preparation of financial reports for the Workforce Innovation and Opportunity Act (WIOA) program.

The United States Department of Labor (USDOL) Employment and Training Administration (ETA) 9130 financial reports are submitted quarterly by DWI to report LWDA expenditures. The LWDAs enter their expenditures into the Workforce Online Reporting for Kentucky System (WORKS). DWI utilizes the data from WORKS to prepare the quarterly ETA 9130, which cumulatively reports the expenditures of all LWDAs.

DWI verifies the accuracy of WORKS by reconciling the information to the LWDA's annual compliance audit. A spreadsheet provided by DWI identified the following unreconciled differences between expenditures reported in WORKS and expenditures identified within the LWDAs annual compliance audit:

- Kentuckiana Works LWDA \$ 507,785
- Barren River LWDA 56,429
- Bluegrass LWDA 43,366
- Cumberland LWDA 61,547
- EKCEP LWDA 41,394
- Northern Kentucky LWDA 7,643

DWI failed to document any further reconciliation or evaluation of these differences in order to verify and validate the accuracy of information reported within the ETA-9130 financial reports. Since audit reports are only obtained annually, DWI utilizes this reconciliation as a back end reconciliation of the accuracy of WORKS data. Other control mechanisms should be in place to ensure prepared quarterly reports are accurate and completed in a timely manner.

DWI failed to implement adequate internal controls over the monitoring and review of data utilized in preparing financial reports in order to ensure information was complete and accurate. DWI's reconciliation spreadsheet lacked consistency, contained errors, and included unlabeled information. Failure to ensure the accuracy of financial reports submitted to USDOL could lead to noncompliance with federal regulations as well as impact determinations used in managing and evaluating the activities and effectiveness of WIOA.

### **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-057: The Department Of Workforce Investment Failed To Ensure The Accuracy Of Data For Local Workforce Development Areas On Submitted Reports (Continued)**

2 CFR 200.303 indicates that the internal controls required to be established by a non-federal entity receiving federal awards should be in compliance with the guidance in “Standards for Internal Control in the Federal Government,” issued by the Comptroller General of the United States (Green Book) or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Section 13.04 - Relevant Data from Reliable Sources, within the Green Book states, in part,

Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Relevant data have a logical connection with, or bearing upon, the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability.

WIOA Sec. 185 Reports; Recordkeeping; Investigations, states, in part,

- (c) Each State, each local board, and each recipient (other than a subrecipient, subgrantee, or contractor of a recipient) receiving funds under this title [...]
- (2) shall prescribe and maintain comparable management information systems, in accordance with guidelines that shall be prescribed by the Secretary, designed to facilitate the uniform compilation, cross tabulation, and analysis of programmatic, participant, and financial data, on statewide, local area, and other appropriate bases, necessary for reporting, monitoring, and evaluating purposes, including data necessary to comply with section 188;

#### **Recommendation**

We recommend DWI implement adequate internal controls to ensure ETA 9130 reports are prepared with information that is complete and accurate. DWI should reconcile the data within WORKS, as submitted by LWDAs, to finalized audit reports. Any differences should be investigated and resolved to ensure accuracy in financial reporting.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-057: The Department Of Workforce Investment Failed To Ensure The Accuracy Of Data For Local Workforce Development Areas On Submitted Reports (Continued)**

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**Management's Response and Planned Corrective Action**

*The OET monitoring team continues to make improvements to its monitoring activities. Each LWDA submits an annual A-133 Audit. The monitoring team reconciles expenditure amounts reported in the audit to expenditure amounts reported to the WORK system. Of the 10 LWDA's, four of them balanced with the exception of small amounts due rounding up amounts in the annual audit. Six areas did not match, and are being followed up on with each perspective local area. The OET monitoring team will develop a formal review document to demonstrate that any areas with unreconciled differences are followed up on. In the meantime, the monitoring team will follow up with each local area containing unreconciled differences. Follow-up will be formally documented.*

*Currently the A-133 audit reconciliation and the ETA-9130 reports are completed by different departments. DWI will develop procedures that insure internal controls are in place so all reports are complete and accurate.*

### **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-058: The Department Of Workforce Investment Failed To Ensure The Accuracy Of Data In The Trade Activity Participation Report**

State Agency: Department of Workforce Investment  
 Federal Program: CFDA 17.225 – Unemployment Insurance (UI)  
 Federal Agency: U.S. Department of Labor  
 Pass-Through: Not Applicable  
 Compliance Area: Reporting  
 Questioned Costs: \$0

This is a repeat of finding 2015-057 as reported in the 2015 Statewide Single Audit of Kentucky (SSWAK) Volume II. The Department for Workforce Investment (DWI) submits the Trade Activity Participation Report (TAPR) quarterly to the United States Department of Labor (DOL). This report includes data about the Trade Act Program (TAA) for claimant benefit payments, training payments, and performance data and is used to support the overall management, evaluation, and continuous improvement of the TAA program at the local, state, and federal levels. A review of 40 applicants from TAPR reports submitted to DOL during fiscal year 2016 identified the following discrepancies:

- Seven instances where participant data had incorrect employment and job retention information reported for individuals.
- Twenty-one instances where participant data had incorrect or missing wages reported for individuals in quarters prior to and after their participation in TAA.

Difficulties in acquiring and assembling information pertaining to the development of the TAPR can be attributed to a lack of resources in updating TAA computer systems, technical issues in assembling data between current mainframe reporting systems and older computer systems, and the complexities associated with tracking required information necessary for the TAPR. Failure to ensure the accuracy of information reported within the TAPR as submitted to DOL could impact determinations used in managing and evaluating the activities and effectiveness of TAA.

2 CFR 200.303 indicates that the internal controls required to be established by a non-federal entity receiving federal awards should be in compliance with the guidance in “Standards for Internal Control in the Federal Government,” issued by the Comptroller General of the United States (Green Book) or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Section 13.04 – Relevant Data from Reliable Sources, within the Green Book states, in part,

Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Relevant data have a logical connection with, or bearing upon, the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability.

## **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-058: The Department Of Workforce Investment Failed To Ensure The Accuracy Of Data In The Trade Activity Participation Report (Continued)**

20 CFR § 617.61 states, “a State agency shall furnish to the Secretary such information and reports and conduct such studies as the Secretary determines are necessary or appropriate for carrying out the purposes of the Act and this Part 617.”

The 2012 Trade Activity Participant Report, Data Preparation and Reporting Handbook, Section II General Reporting Guidance, B. Due Dates states, in part,

Accurate and comprehensive management information on job seekers served through the one-stop delivery system is needed to make appropriate, cost-effective, and timely decisions about state and federal investments in workforce development activities. The performance information available through the TAPR is useful to One-Stop Career Center managers, public and private workforce agencies, service providers, state program administrators engaged in policy development and program planning, and evaluation researchers involved in the analysis of the TAA program.

The 2012 Trade Activity Participant Report, Data Preparation and Reporting Handbook, III. Program Items Reported (Including Collection Timing and Clarifications), D. Performance Outcomes Information, states,

#### **D.01: Employment and Job Retention Information**

This section tracks performance-related outcomes for the participant, including:

- Whether the participant was employed in the first, second, third and fourth quarter after exit;
- Type of verification used to identify participant’s reemployment status in the first, second, third and fourth quarter after exit;
- The type of employment that the participant may have obtained after exit; and
- Whether the participant was recalled by their trade affected employment.

Data elements that report information in this section should appear within six months following the report quarter referenced in the data element.

#### **D. 02: Wage Record Information**

This section tracks information that is used to track the participant’s performance outcomes in the program, including:

- Wage data for three quarters prior to participation, and
- Wage data for four quarters after program exit.

Data elements that report information in this section should appear within six months following the report quarter referenced in the data element.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-058: The Department Of Workforce Investment Failed To Ensure The Accuracy Of Data In The Trade Activity Participation Report (Continued)**

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**Recommendation**

We recommend DWI review TAPR requirements and work to ensure the report is prepared utilizing complete and accurate information. DWI should implement adequate internal controls over the preparation and subsequent review of the TAPR to ensure compliance with federal guidelines.

**Management's Response and Planned Corrective Action**

*The TAPR must be submitted and certified 45 days after the ending quarter. In order to produce an extract file, the following process must occur:*

*Step One:*

- The day following the quarter ending, 10 training payment files in excel format are extracted and sent to the Local Workforce Development Areas (LWDAs) for completion. The LWDAs are given 10 days to complete and return the payment files.*
- A Wage Record file is submitted to (WRIS) to pull wages from other states and the outlining areas*
- A request for a A/RTAA and TRA is submitted to COT for processing*
- A request is sent to TRADE staff for an Overpayment file*
- A request is sent to Grants Management to send payment information from the 9130s for comparison.*

*Step Two:*

*After all external and internal files are submitted back to the staff person, the staff person will import the files into the TAPR application site to produce an extract*

*Step Three:*

*Once a TAPR extract has been produced, that file is then uploaded to the Department of Labor's website. That site will then produce an error report.*

*Step Four:*

*The errors on the error report must be corrected in order for resubmission. The process to correct the errors entails importing the file into Access and correcting the errors. Once all errors have been corrected, the file is then exported and uploaded again. This process continues until all errors have been corrected.*

*Step Five:*

*Once a file has been certified by the Department of Labor's website, and email is sent to Management informing them of such success.*

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-058: The Department Of Workforce Investment Failed To Ensure The Accuracy Of Data In The Trade Activity Participation Report (Continued)**

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**Management's Response and Planned Corrective Action (Continued)**

*Given the time constraint of producing and submitting a successful report, data mining has been an issue. We are continuing to build processes that will allow for the review of data. We are cross training staff on reporting. We are establishing designated meetings to discuss how to analyze the data more effectively. A meeting has already occurred with our financial vendor and a process/procedure has been developed and will be established that will enable the report staff to review data on a monthly basis rather than a quarterly basis. Running constant data scripts are crucial to accurate reports and we are making strides in producing that outcome. Our current process is manual and very labor intensive. In addition to continuous procedure improvements, we are including in our Capital/Budget request a system that will automate the process saving man hours and reducing human error.*

## **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-059: The Kentucky Transportation Cabinet Failed To Comply With Wage Rate Requirements**

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State Agency: Kentucky Transportation Cabinet  
 Federal Program: CFDA 20.205 – Highway Planning and Construction  
CFDA 20.219 – Recreational Trails Program  
 Federal Agency: U.S. Department of Transportation  
 Pass-Through: Not Applicable  
 Compliance Area: Special Tests and Provisions  
 Questioned Costs: \$0

This is a repeat of finding 2015-063 as reported in the 2015 Statewide Single Audit of Kentucky (SSWAK) Volume II. The Kentucky Transportation Cabinet (KYTC) failed to acquire highway construction wage certifications from hired contractors working on Kentucky’s federal-aid projects per the provisions of the Wage Rate Requirements, also known as the Davis-Bacon Act. KYTC is required by federal statute to obtain weekly payroll records for construction contracts financed by federal assistance funds in excess of \$2,000. The following exceptions were identified:

- Certified payrolls could not be located for seven out of 30 payments for contractors working on KYTC federally funded projects.
- Discussions with KYTC identified one instance where a contractor had the requested certified payroll; however, further inquiry revealed about half of the payroll records for the contractor’s other pay estimates had not been received.
- Certified payroll records were not properly tracked, organized, or readily available. Certified payroll records were not consistently filed or easily identifiable and the date of receipt was not always apparent to support that certified payrolls were received timely. The KYTC *Construction Guidance Manual* did not clearly identify how the Cabinet will track payroll records upon receipt by the section engineers.
- The Division of Construction did not withhold payments of contractor’s current estimates when complete and accurate contractor payrolls had not been received, as required in KYTC’s *Construction Guidance Manual*. KYTC relies on a post audit by the Division of Construction Procurement to initiate payment withholding.

The Federal Highway Administration (FHWA) responded to KYTC’s 2015 corrective action plan to the prior year finding by stating “KYTC corrective action does not demonstrate how KYTC will ensure timely and proper submittal of contractor and subcontractor payrolls. The corrective action plan should explain the proper steps KYTC will take to ensure all work on the project is covered by applicable payrolls prior to submittal to central office and prior to any payment being issued to the contractor on the project. This will move the responsibility for ensuring that required payrolls are actually received to the closest project level as possible rather than depending on central office staff to monitor projects from a distance.” In April 2016, KYTC implemented a revised policy over the collection and monitoring of certified payrolls from contractors; however, certified payrolls were still unaccounted for following the policy change.

## **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-059: The Kentucky Transportation Cabinet Failed To Comply With Wage Rate Requirements (Continued)**

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KYTC failed to implement adequate internal controls to ensure prime contractors submit required weekly payroll records in a timely manner for all weeks worked by each prime contractor. Failure to verify and track timely submission of payroll records by prime contractors increases the risk that contractors are not complying with Wage Rate Requirements. Additionally, KYTC made 2,852 federally funded contractor payments during fiscal year 2016, totaling \$449,181,336. Some of these payments were made in violation of KYTC's policy which requires payments to be withheld when accurate contractor payrolls are not received.

29 CFR 5.5(a)(3)(ii)(A) states, in part:

The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (write in name of appropriate federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency). The payrolls submitted shall set out accurately and completely all of the information required to be maintained under 29 CFR 5.5(a)(3)(i), except that full social security numbers and home addresses shall not be included on weekly transmittals.

KYTC's *Construction Guidance Manual* states, in part,

#### **Payroll Submittals**

The contractor shall submit the payrolls, accompanied by statements of compliance, to the SE [section engineer] within 7 days after the ending of the applicable pay period. [...]

When complete and accurate contractor payrolls have not been received by the SE for the periods covered by the previous estimate, the SE shall initiate action to withhold payment of the contractor's current estimate.

#### **Payroll Review**

The Contractor shall submit either an electronic or paper copy of the certified payrolls to the section engineer (SE) for all federal-aid contracts. The SE shall review the payroll to ensure the contractors listed for the pay period submitted were the actual contractors working during that period. The payrolls shall be stored electronically using data management software.

#### **Recommendation**

We recommend KYTC comply with 29 CFR 5.5(a)(3)(ii) and the requirements outlined within the *Construction Guidance Manual*. KYTC should strengthen policy and procedures to ensure compliance with federal regulations as established under Wage Rate Requirements. New guidance should be consistently applied across all 12 KYTC highway districts for the collection of payroll records, with a clear and identifiable way to discern that compliance has been obtained.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-059: The Kentucky Transportation Cabinet Failed To Comply With Wage Rate Requirements (Continued)**

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**Management's Response and Planned Corrective Action**

*The State Highway Engineer's Office will issue a memo to all highway districts, Project Delivery branches, section offices, and Divisions of Construction and Construction Procurement reiterating the pertinent sections of the Construction Guidance Manual and 29 CFR 5.5(a) (3) (ii). It will be stated that complete and accurate payrolls must be received before payments can be processed. That memo will also detail how submitted payrolls are to be uploaded to KYTC's ProjectWise system. A folder structure in that system presently exists for this purpose. Prior to approving payments on federal projects, the Division of Construction will perform a check of a representative sample of projects to see that payroll has been submitted by the Section Engineer's office. If complete and accurate payroll is not on file, the section engineer will be notified and payment will be held until the outstanding documentation is properly submitted.*

### **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-060: The Kentucky Transportation Cabinet Failed To Comply With Quality Assurance Program Requirements**

State Agency: Kentucky Transportation Cabinet  
 Federal Program: CFDA 20.205 – Highway Planning and Construction  
CFDA 20.219 – Recreational Trails Program  
 Federal Agency: U.S. Department of Transportation  
 Pass-Through: Not Applicable  
 Compliance Area: Special Tests and Provisions  
 Questioned Costs: \$0

The Kentucky Transportation Cabinet (KYTC) is required to have a Quality Assurance (QA) program, approved by the Federal Highway Administration (FHWA), for construction projects on the National Highway System (NHS) to ensure that materials and workmanship conform to approved plans and specifications. The Independent Assurance Sampling and Testing Program (IAS) is a component of KYTC's QA and is conducted to provide an unbiased and independent evaluation of all sampling and testing procedures, laboratory qualifications, qualified testing personnel, and construction inspection used in the department's overall QA. For four out of 21 project certifications reviewed, KYTC failed to provide evidence that initial test results had been compared against IAS results. Without a comparison being documented, it could not be determined if exceptions in testing had occurred or if further follow up and review was necessary. Additionally, there was no evidence that an authorized reviewer verified the results of the comparison between initial tests and the IAS results prior to materials being certified.

KYTC utilized form TC64-13 to document the comparison of the initial material test results with the IAS results. Form TC64-13 was not on file as supporting documentation that the comparison had been completed for the four exceptions identified. KYTC indicated exceptions identified during the comparison review could be informally communicated and addressed in some instances; however, without the comparison review being formally documented, there is no evidence to support proper review and analysis had been completed. The failure to implement adequate internal controls over the QA process could lead to materials being inappropriately certified, which could have a long term impact on the quality, durability, and safety of KYTC projects.

23 CFR 637.207 Quality assurance program, states, in part,

- (a) Each STD's quality assurance program shall provide for an acceptance program and an independent assurance (IA) program consisting of the following: [...]
- (2)(iii) A prompt comparison and documentation shall be made of test results obtained by the tester being evaluated and the IA tester. The STD shall develop guidelines including tolerance limits for the comparison of test results.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-060: The Kentucky Transportation Cabinet Failed To Comply With Quality Assurance Program Requirements (Continued)**

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Per the Material Field Sampling Manual (MFS 1201), Independent Assurance Sampling,

IAS results shall be analyzed promptly by the district materials engineer (DME) and reported to the Division of Materials IAS coordinator. IAS comparison test results shall be submitted to the Division of Materials by means of the currently approved test reporting format. When excessive differences between the IAS comparison results occur or other discrepancies are noted, the DME and contract personnel shall work together to investigate the discrepancies and to resolve any deficiencies. When the situation cannot be resolved at the district level, the Materials Central Laboratory (MCL) shall be notified. (KM 64-112 provides numerical limits for analyzing IAS and comparison tests.)

**Recommendation**

We recommend KYTC comply with established policies and procedures and federal requirements regarding the QA program. KYTC should ensure that all IAS result comparisons are reviewed, approved, and documented to support procedures conducted and compliance obtained.

**Management's Response and Planned Corrective Action**

*As indicated in Section 1201 of the Materials Field Sampling and Testing Manual, district personnel are responsible for performing independent assurance (IA) sampling and testing.*

*Further, district personnel are responsible for evaluating the IA results and addressing any discrepancies identified. The Division of Materials is responsible for ensuring that the minimum number of required IA tests were performed. The Division of Materials will reinforce proper IA procedures and documentation with district materials personnel at the annual staff meeting scheduled for April of this year. The Division of Materials has already provided this information to the two districts responsible for the four contracts in question, and the IA results and comparisons were documented on the appropriate form after the fact.*

## **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-061: The Kentucky Transportation Cabinet Failed To Obtain Federal Highway Administration Approval Prior To The Donation Of Real Property**

State Agency: Kentucky Transportation Cabinet  
 Federal Program: CFDA 20.205 – Highway Planning and Construction  
CFDA 20.219 – Recreational Trails Program  
 Federal Agency: U.S. Department of Transportation  
 Pass-Through: Not Applicable  
 Compliance Area: Equipment and Real Property Management  
 Questioned Costs: \$0

The Kentucky Transportation Cabinet (KYTC) failed to obtain official approval from the Federal Highway Administration (FHWA) prior to the donation of 131 acres of land to the Pike County Fiscal Court. KYTC identified it had excess right-of-way property that was no longer needed for purposes of the Commonwealth. Per a memorandum dated August 20, 2015, the property was donated “to facilitate a needed public use and need in the Appalachian region as a SOAR project housing facility.” Since the property was originally purchased with Appalachian Development Highway System (ADHS) dollars, federal approval was required prior to the property being donated. The deed of conveyance was signed on September 3, 2015 transferring the property from the Commonwealth to the Pike County Fiscal Court. The property had an appraised value of \$1,924,500 as of February 21, 2013.

Federal statute and the *Stewardship And Oversight Agreement On Project Assumption And Program Oversight By And Between Federal Highway Administration, Kentucky Division and the Kentucky Transportation Cabinet* (Stewardship Agreement) requires FHWA approval be obtained when property purchased with federal funds is disposed of at less than fair market value. Further review of additional properties donated during fiscal year 2016 identified a formal FHWA approval was also not obtained for the following:

- Property donated to the Bell County Board of Education appraised at \$104,000;
- Property donated to the Letcher County Fiscal Court appraised at \$16,000; and
- Property donated to the City of Covington appraised at \$933.

KYTC officials misinterpreted requirements established in the Project Action Responsibility Matrix within the Stewardship Agreement related to the disposal of property. Depending on the circumstances, the Commonwealth has responsibility for approving some project actions; however, the Stewardship Agreement explicitly states that FHWA approval is required when a property is disposed of at less than fair market value for federally funded right-of-way. As a result, \$2,045,433 of appraised property was donated in FY16 without FHWA’s formal approval.

23 CFR 710.409 states, in part,

- (a) Excess real property outside or within the approved right-of-way limits or other project limits may be sold or conveyed to a public entity or to a private party in accordance with §710.403(a), (c), (d), (e), (f) and this section. Approval by FHWA is required for disposal of excess real property unless otherwise provided in this section or in the FHWA-SDOT Stewardship/Oversight Agreement.

### **SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-061: The Kentucky Transportation Cabinet Failed To Obtain Federal Highway Administration Approval Prior To The Donation Of Real Property (Continued)**

The Stewardship Agreement, Project Action Responsibility Matrix, states, in part,

PROJECT ACTION RESPONSIBILITY MATRIX (as of February 6, 2015) (Excluding PoDIs, which are subject to separate PoDI Plans)		
ACTION	AGENCY RESPONSIBLE	
	PROJECTS ON THE NHS	PROJECTS OFF THE NHS
Approve disposal at less than fair market value of federally funded right-of-way, including disposals of access control [23 U.S.C. 156] (Note: this action cannot be assumed by State)	FHWA	FHWA

#### **Recommendation**

We recommend KYTC comply with 23 CFR 710.409 and the requirements outlined within the Stewardship Agreement. KYTC should implement adequate internal controls to ensure FHWA approval is acquired when disposing of federally funded right-of-way at less than fair market value. Formal FHWA approval should be adequately documented and maintained as evidence of compliance.

#### **Management's Response and Planned Corrective Action**

*KYTC acknowledges that pursuant to 23 CFR 710.409, as well as the FHWA-SDOT Stewardship/Oversight Agreement, FHWA review and approval is required when property purchased with federal funds is disposed of at less than fair market value. KYTC asserts that each of the four transfers referenced herein were reviewed and approved verbally by appropriate FHWA personnel prior to proceeding with the surplus disposal(s). KYTC further asserts that while a formal documented approval was not secured and or tendered, the required FHWA personnel were aware and in complete agreement with each of the surplus disposals in question.*

*Moving forward, as a measure to ensure documented regulatory compliance, KYTC and FHWA personnel met on February 27, 2017 and established a two tier review/and written approval process wherein the proposed surplus transfer documentation will first be jointly reviewed and followed by a formal written request. KYTC will request FHWA approval based upon the review. FHWA will generate a written response to the request to ensure documented compliance.*

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## **APPENDIX**



**COMMONWEALTH OF KENTUCKY  
APPENDIX  
FOR THE YEAR ENDED JUNE 30, 2016**

This report is available on the Auditor of Public Accounts' website, [www.auditor.ky.gov](http://www.auditor.ky.gov). For other requests, contact Tim Gutman, Open Records Administrator, with the APA at (502) 564-5841 or [tim.gutman@ky.gov](mailto:tim.gutman@ky.gov). If copies of the Commonwealth's FY 16 Comprehensive Annual Financial Report are required, visit [www.finance.ky.gov](http://www.finance.ky.gov).

The following is a list of individuals by state agency to contact regarding federal award findings listed in the Schedule of Findings and Questioned Costs.

<b>Agency</b>	<b>Contact</b>
Cabinet for Health and Family Services	Kelli Hill, Assistant Director Division of General Accounting Cabinet for Health and Family Services 275 East Main Street 4E-A Frankfort, KY 40601 Phone: (502) 564-8890
Department of Workforce Investment	David Morris, Director Office of Fiscal Services 300 Sower Blvd. 4 <sup>th</sup> Floor Frankfort, KY 40601 Phone: (502) 564-2618
Kentucky Transportation Cabinet	Lori Mann, Deputy Executive Director Office of Audits Transportation Cabinet 200 Mero Street 4E Frankfort, KY 40622 Phone: (502) 782-4041